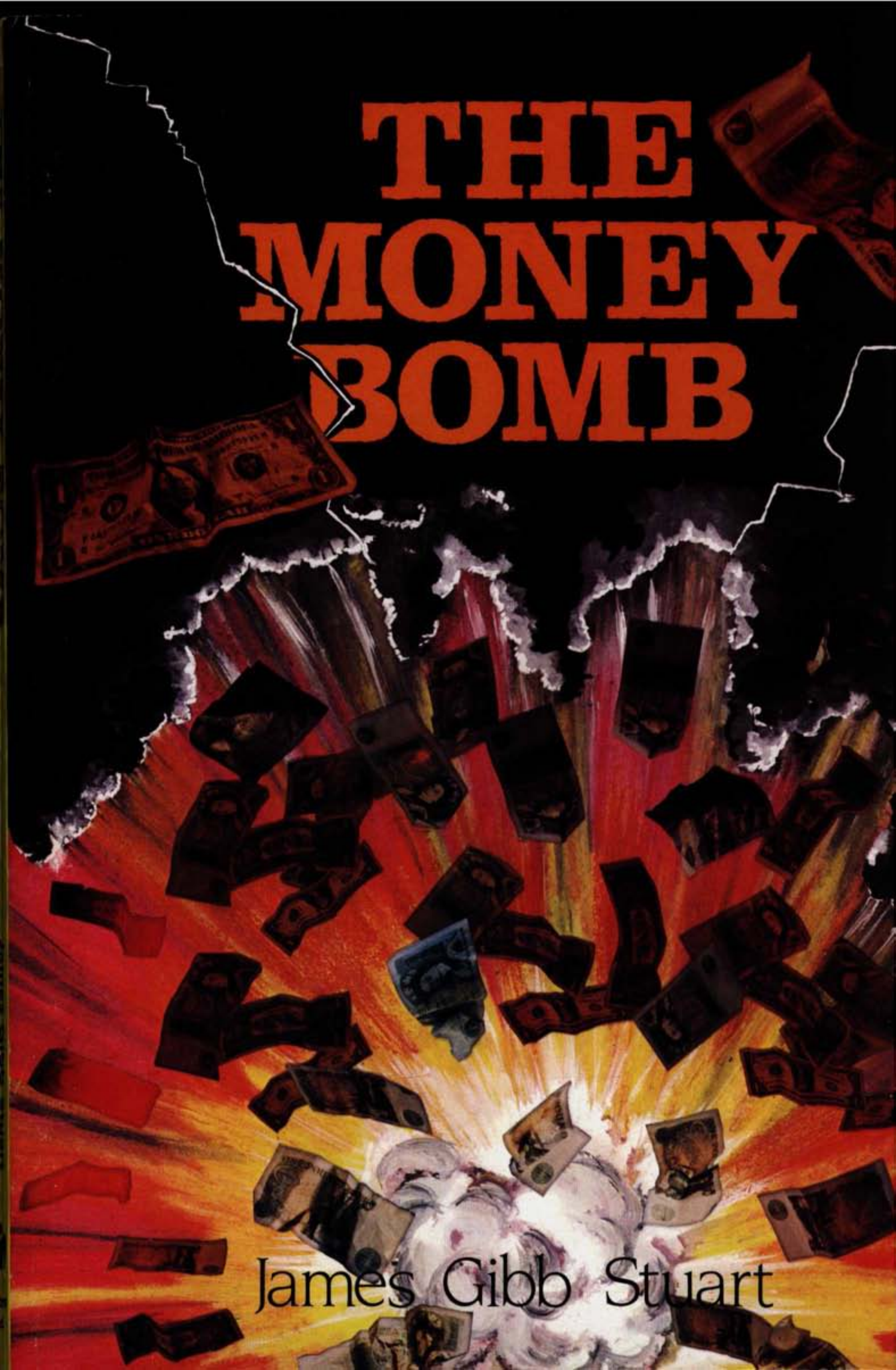
THE MONEY BOMB
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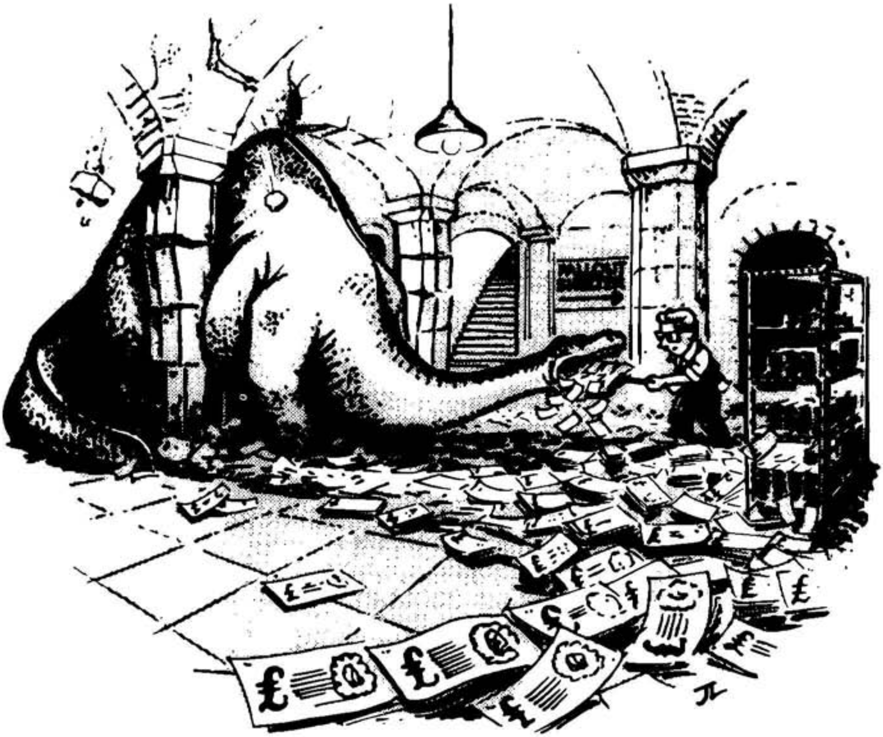

"The Dinosaur at the Treasury"

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INTRODUCTION
To the Second Edition

In 1979 a British Conservative Government led by Mrs. Margaret Thatcher set about curing inflation and industrial stagnation by a monetarist policy which aimed at controlling money supply and commercial activity through leverage on interest rates. As a result the Minimum Lending Rate was held at an unprecedented 17% for over a twelvemonth, and Britain's productive industry was paying 20% for its borrowed money. Money supply and inflation were finally brought under control, but the social cost was high in terms of factory closures and lost employment.

Meanwhile in the United States President Ronald Regan, racing against time to build up the Free World's defences against the persistent encroachments of Soviet Communism, found that it was only politically and economically acceptable to do so by running up enormous budget deficits which also rocketed interest rates and forced the whole economy into recession.

Over this same period a bevy of East European and developing countries, heavily borrowed from the international bankers, threatened to default on the crippling debts which they could not hope to service without further borrowing. Commonly known as the Third World Debt Crisis, this unstable situation, which showed every sign of rumbling on throughout the eighties, periodically rocked the West's financial markets as it caused upheavals within the banking system.

It is a purpose of *The Money Bomb* to illustrate how these and many other financial and economic disorders are inter-related. The author shows simply and unambiguously that misconceptions about money are damaging our Western economies with excessive taxation and unnecessarily high unemployment. Here at last is an honest and uninhibited explanation for high interest rates, persistent government borrowing and the stop-go of the boom and depression syndrome. Here, as the problem is analysed, you see how the rich get richer, and the poor must get relatively poorer, unless the financial sector is made to accept a re-alignment and a change of heart. Here is an insight into the true crisis of capitalism, which leaves it faltering and uncertain in face of the Communist challenge, and could ultimately destroy our whole democratic way of life, if we are not somehow to have an opportunity of studying it at a national level and achieving a consensus in favour of reform.

THE PRIZE COMPETITION

When the book first appeared in March 1983 the author, in making his own proposals, quite clearly anticipated that new ideas, suggestions and amendments would emerge as other experienced minds took up the problem which he had so devastatingly exposed. The publishers therefore decided to offer a prize of £1,000 for the best alternative or complementary proposal towards a practical and acceptable solution.

The competition closed on 31st March 1984, and the prize was ultimately awarded to Mr. P. Q. Collins of London for his treatise on *Convertible Currency,* which appears in this volume as an appendix. Mr. Collins' concept of a Commodities Reserve is neither new nor original, and was mentioned by some of the other contestants. But in the opinion of the adjudicators his approach was marginally more in keeping with what the author of *The Money Bomb* was trying to achieve, and his essay, considered on its own, is a powerful incentive for financially troubled peoples all round the world to exploit the real wealth within their borders, and have some influence on their own destinies.

"Let me issue and control a nation's money, and I care not who writes its laws."

Attributed to Amschel Rothschild. (See page 141)

CHAPTER I

¶1 THE CASH THAT JINGLES IN YOUR POCKET

So what is money? or is that a tomfool question, bearing in mind the commonplace nature of the commodity involved?

Everyone, you might say, — everyone in the commercialised world, — knows that money is what you have to part with every time you make a purchase or command a service. Money is what you use to pay the rent or buy the groceries or persuade the local garage to fix the family car. Most of us spend the better part of our active lives working for money, working and planning so that when we are no longer able to earn money, it will have been provided by pension or endowment, either for ourselves or our dependants, so that right up to the last moments of our natural lives there will be at our disposal either capital or income, in sufficiency to buy what we need for sustenance and comfort.

Money determines what type of car we drive, what style of house we occupy, whether we live in grotty slum or snobbish suburb,—what companions we keep or games we play,—whether we spend the summer break yachting in the Caribbean or sitting in the backyard nostalgically reading last year's holiday brochures.

Even the kids know all about money. They soon learn that money is what buys their ice-creams and their lollipops, and the rides upon the roller-coaster. Money paces us right through our social existence, from the coppers and silver coins scrounged out of

mummy's handbag up to the one pound notes and fivers in that first pay packet, — and latterly on to the cheque book and the credit card, which may constitute a different kind of money, but which have eventually to be reconciled in terms of the cash balances you may hold in a bank account.

The one point upon which most people will agree about money is that, if it's difficult to get, it's even more difficult to keep. It has a habit of vanishing out of the pocket or the wallet or the joint cheque account. Many a family quarrel has been instigated by a double-pronged onslaught on the household finances, and the bitter realisation that future solvency depends upon a re-alignment of priorities by one or other of the partners.

¶2 THE DIMINISHING POUND

All of which brings us to another well-acknowledged fact about money, — that we never seem to get enough of it. Bonuses, wage and salary increases, windfalls and gambling wins all come in very handy at the time, but inexorably they are eroded by living expenses, inflation or the unexpected contingency. Almost everything on our personal horizon seems limited by money, — or the lack of it, — our life style, our work patterns, our ambitions for ourselves and our families. So when you look at things in that way, perhaps we don't know as much about money as we thought we did, — not till we have found out where it comes from and who creates it.

On the physical side there is of course a simple answer, which does not test our bump of general knowledge too rigorously. We have heard of an illustrious Crown and Government institution called the Royal Mint, which seems to spend most of its time turning out millions of shiny new coins which will eventually find their way through bank tills or supermarket cash registers into our handbags and our pay packets. In former times these coins would have been of pure silver and copper, but due to the depreciation of the currency, they are now largely of nickel and various alloys. Even so, as we spend them, or pick them up in change for larger purchases, that scarcely seems to matter. We go by the face value embossed into the metal, and so long as they are universal tender, who cares about the intrinsic worth?

But in these inflationary times our coinage has degenerated into so much small change, and most people use the banknote for their larger transactions. The Bank of England one pound note, once a handsome piece of paper, has now shrunk to an insignificant rectangle measuring some five inches by two and three-quarters,—or will the metrication moguls have had the temerity to convert that into centimetres? They say in any case that the single pound is on its way out, to be replaced by just another piece of decimal coinage.

O.K. As times change, they mess us around, turning inches into centimetres, pound notes into coins, and florins into tenpence pieces. Meanwhile money values just go on depreciating, so that one of these days we'll be counting our small notes in fivers.

¶ 3 THE BULK OF THE MONEY STOCK

But you and I, once we get past the lollipop and the Saturday penny syndrome, realise that coin and even the banknote issue are only a small part of the total amount of money kept in circulation. In December of 1981 the Economic Research Council published the following figures for the year 1980:—

Banknotes and coin in the hands of the public	£10,411 million.
Private Sector sight deposits	£20,803 million.
Other Deposits within the Banking System	£38,361 million.
Total	£69,575 million.

So the tangible stuff you can feel in your hands, the coins and the banknotes, were only about one-seventh of what has come to be known as the money stock. The other eighty-five per cent is locked up in company balance sheets or bank data processing equipment. It includes, for instance, the nest egg which you may have tucked away in the local savings bank, and you know from experience that if you decide to have a spending spree, the bank cashier will dutifully convert that into tens and fives, single notes and coin, and send you on your way rejoicing. If you change your mind, he will even take it all back without comment the following day, putting the notes and the coin back into his tray, and crediting you with your original balance.

Maybe the otherwise pointless exercise did something for your morale. It made you realise that you did have your little bit of money, even if you had never previously held it in your hands. The history of the developing world is riddled with stories of the wild-eyed desert chieftains, Arab sheikhs and other unsophisticated men of substance who, having been persuaded to trust their wealth to the banking system, regularly call at its offices and insist upon their entire credit balance being laid out for them on the counter, so that they can check that it is being well looked after. Obviously if we all did that on the same day, the High Street banks and the Bank of England note issue department would end up in a tizzy, and there would have to be drastic reappraisals about the distribution of the money stock.

But in the meantime most of our money, — eighty-five per cent at the last point of reference, — is deposit or credit ledger money, shuttled back and forth through cheques, bank drafts or letters of credit, seldom appearing as cash in the recognised sense of the term.

¶4 MONETIZING YOUR ASSETS

So if we harken back to our original question, and say again, *what is money?* is there still such an obvious answer, — bearing in mind that the banknotes and coin with which we are all so familiar represent only about 15% of the total money stock, and the remainder, the amount that really matters, is bound up within a banking mystique which few of us really understand?

We have seen how any one of us can call forth his own microscopic portion of that intangible money stock, simply by presenting savings book and credentials at the bank or building society counter. Even if we are somewhat better upholstered, with a legacy tucked away, or a pools win, or years of fat dividends accumulating from a shares portfolio, the difference is one of scale only. All that money had to be earned somewhere, sometime, either in return for labour or services, or as profits out of productive industry. But before we could earn it, someone else had to *create* it.

Suppose we return for a moment to that hypothetical spending spree, decide that we're going to make it a real bumper of a binge, — and what's more, — that we're going to do it all on *borrowed* money! Depending on the size of the commitment, this time the bank will

want some kind of security,—perhaps a life insurance or share certificates, or even a mortgage on the country cottage. In their eyes the loan will have been justified because you have *real*wealth in your possession which you are prepared to pledge in return for the borrowings. What you have done is to *monetize* some of that wealth in order to finance your prospective purchases, and since you have called up funds which were not previously in existence, the bank has accommodated your impending extravagance by *creating* a credit which adds to the nation's available money supply.

¶5 HOW THE VOLUME OF MONEY INCREASES

Remember how in 1980 the Economic Research Council's statistics put the total funds in circulation at £69,575 million, of which only about £10,000 million was in the form of banknotes and coin. Interpolating from the same tables, we find that in 1974 money stock was only half as much at £35,300 million, with banknotes and coin at £5,000 million. So the total *volume* of money had doubled over a period of six short years, and it had all happened by basically the same procedure as you yourself inaugurated when you went to your High Street bank manager, planked down your collateral and asked for a temporary loan.

All of which tells us that individuals, businesses, companies and large corporations, by their demands for finance, are prime movers in the inflation of the money supply. Banks themselves are in the business of lending money, and have occasionally been known to drum up trade when their accounts are in the doldrums. But they cannot normally persuade you to accept a loan and pay the accruing interest, unless you the borrower have signified your desire and your intention to be committed.

So in those six years from 1974 to 1980, whilst the Royal Mint and the Treasury were adding a mere £5,000 million to the banknotes and coin in circulation, the banking system was providing us all, individually or corporately, with another £30,000 million in the form of credit, represented by term loans, overdrafts and other types of withdrawals in excess of existing liquidity. All legitimate enough within the established financial system! As we have seen with the commitment of some of our own resources on that hypothetical

spending spree, all that happened was the monetization of other forms of wealth for the convenience of the customer, — and no doubt also for an enhanced flow of goods and services.

Obviously the monetization of wealth is no bad thing. Without it the average employer could not meet his weekly wage bill, the manufacturer could not invest in the development of new products, the farmer could not live whilst his crops were ripening, or the stockbreeder whilst his beefs were fattening on the meadow. But does this mean that during those six years between 1974-80, Britain as a nation had accumulated an additional £35,000 million of real wealth which a consensus of the population was in favour of monetizing? Not really, as it happens! Much of that vast upsurge in lending, round-tripping, selling and leasing back, which became such a feature of the 'seventies, was occasioned by the currency inflation which gave everything a sharply enhanced money value without contributing anything to its real worth.

Banks had been the key functionaries in this process. As the demand for loans and overdrafts accelerated, they obliged by creating a vast reservoir of new credit, all secured against new securities or mortgages, — or perhaps against existing mortgages which had been dramatically upvalued to compensate for the depreciation of the currency.

¶6 A FINANCIAL SYSTEM THAT'S FAILING THE NATION

So we now know a little more about our money. We know that the bulk of the money which keeps our economic and financial system in operation is credit which the banks have created on demand. We can say also that in terms of the prevailing wisdom, this is sound and legitimate provided the credit is secured against some measure of real worth, such as property or land, and is used in the promotion of productive activity such as farming or manufacturing, or in the construction of worthwhile capital projects.

The lending can be secured against buildings or land or productive complexes already in existence, — or as an act of faith, it can also be secured against some tangible investment which has yet to be brought into being.

What happens, however, when this lending and borrowing cycle gets out of hand, — when banks for instance are sidetracked from their traditional role of financing agriculture and productive industry, and find it more profitable to operate on a speculative fringe activity such as the inner city property boom which took place during the period of the Heath Government 1970-74? The money supply is still vastly inflated, and as the cycle intensifies, all manner of businesses, corporations and institutions are drawn into the vortex, the grand sum of their exertions to be finally measured, not against notable achievements in real wealth, but against some hypothetical consideration of pecuniary gain, — as for instance the exorbitant rents to be obtained for luxury office blocks in plum sites in our city centres.

Suppose then that something goes wrong with the calculations. The office blocks are built and completed, right down to the coloured bathroom suites and the wall-to-wall carpeting, — and it has all been done on money borrowed at 16% per annum. If the economic climate should change, and the management companies can no longer find tenants willing and eager to pay the fabulous rents demanded, — if in fact it proves either impossible or impracticable to hire out the premises at more modest rents, and they end up by lying empty, what then? The developers become unable to pay the ultra-expensive service charges on their borrowed capital, and the banks are obliged to foreclose on their loans.

We then see the opposite syndrome to credit creation, which is the cancellation of debt. In so far as the money supply is concerned, you could yourself participate in this unwinding of the *credit creation* process if, having geared up for that stupendous spending spree by the lodgment of securities against an impressive bank loan, you eventually decided that the expense was ill-advised, and asked the manager to take back the facility in return for your house titles.

By your initial demand for a loan, and the banker's willingness to oblige, you had contributed to a temporary growth in the money supply. By your subsequent change of heart, — and decision to repossess your security, — you had ordered a destruction of the extra money brought into existence. The banker created the credit for you, and cancelled it when it was no longer wanted.

These simple facts of modern banking and finance are now quite

generally known and openly recognised, — even though there is still a tendency to project an aura of mysticism around the entire money-begetting process, on the basis that it is something which ordinary mortals cannot be expected to understand.

Reasons for this will emerge as the argument progresses. But in the meantime we can reckon to have enlarged our minds and increased our sophistication upon matters concerning money and money supply. It is an understanding and a sophistication which will be vitally necessary in the chapters that follow, since it will become clear to us that no longer can we afford to let the banker practise his art outwith the scope of public debate and criticism.

Why? Because the financial system as presently constituted *is failing the nation!* That's why! It's been running for too long without a radical change of direction, — and we are now forced to learn much more about money than the manner in which it vanishes from our handbags and our pocket-books.

CHAPTER II

¶7 THE AFFIDAVITS OF MONETARISM

Money policies,— and the vagaries and inconsistencies of money supply techniques, — achieved an unprecedented prominence in both the United Kingdom and the U.S.A. in the nineteen-eighties following the election of governments with a strong inclination to monetarism.

Monetarism was the economic philosophy developed under the leadership of the American economist Milton Friedman, who preached that state interference with market forces caused more ills than it cured, and that inflation and industrial stagnation were primarily attributable to government overspending. Under the pungent logic of his argument that "there is no such thing as a free lunch", Friedman did much to demolish the notion that one could get something for nothing if it came in the shape of a state hand-out. He was meticulously careful to emphasise that everything, — *but everything,* — has to be paid for by some section of society, and that perhaps the poorest and most expensive service is that which comes to us through a state or municipal bureaucracy.

His diagnosis for the revival of sagging economies which had become uncompetitive through wagedrift, low productivity and overmanning was that they should first of all be exposed to the disciplines of the free market, which would seek out the cost-effective and shun the restrictive and complacent, thereby creating a veritable survival syndrome in which efficiency and a readiness to serve would

ultimately obtain their just rewards.

Upon inflation Friedman was equally outspoken and original. He refused to blame it on all the better publicised causes such as rapacious businessmen, profiteers and wage-grabbing trade union militants. Wage and salary increases, he said, were always more *an effect* of inflation than its cause. They tended to follow, rather than to antedate, the inflationary situation, and were a natural reaction to the erosion of living standards.

For the primary *cause* of inflation he went back to the actions and the attitudes of governments. He saw a close relationship between the *quantity* of money and the speed at which it tended to lose its value, — and of course that makes common sense in anybody's language. You will recall that between 1974 and 1981 the British money stock rose from £35,000 million to £69,000 million, and those of us who lived through that experience know very well what happened to the pounds in our pockets whilst the expansion was taking place.

Friedman was fully alive to the temptation for elected politicians to boost their popularity by higher public spending financed out of borrowings rather than taxation. He called such borrowings "newly-created high-powered money" which, when it was deposited with the banks, broadened the base of their reserves, and enabled them to step up their own private lending. It all tended to increase the *quantity* of money, and to the extent that money was growing faster than the underlying economy, there just had to be inflation.

¶8 THE NEW CONSERVATISM

Monetarist policies were much favoured by the Conservative Government which came to power in Britain during May of 1979. They were seen as an essential antidote to the many years of creeping socialism which had debilitated the economy and blunted the competitive enterprise of the nation in the decades since the Second World War. It was finally being recognised that if strangulation is a lethal form of violence, it is in the end just as murderous to apply it by slow degrees as by an abrupt compression of the windpipe.

Margaret Thatcher, the new Prime Minister, wanted to remove the strangling pressures entirely. Hers was to be a completely new

departure, a bold reaction towards the attitudes and the philosophy of a more confident past. For government control she would substitute private and individual endeavour, for state subsidy and monopoly the disciplines of open competition, for restriction and low productivity within a corporatist economy the benefit of a free market in both goods and labour.

There would of course be several years of tough and painful re-adjustment, as the monopolists saw their privileges curbed, and those who had been hobbling on state crutches learned to walk by themselves. In this new climate the lean, hungry and cost-effective would flourish whilst the lazy, inefficient and indifferent went to the wall. The irresponsible demands of power-hungry trade unionism would be restrained and muted as supine managements no longer found it possible to buy off strikes by wage concessions that bore no relation to productivity. The bevy of sprawling, cash-greedy nationalised industries which had been spawned in those years of creeping socialism would be trimmed in their budgets, made more answerable to the consumer, reorganised to live with market forces as did their counterparts in private industry.

The long-term aim of all such measures was a reduction in both taxation and inflation, — taxation as the levels of government spending were drastically lowered, — cost inflation as manufacturing industry eliminated the restrictive practices which had discouraged output. It was in fact indicated that a major task of the Thatcher Government would be to find a *cure* for inflation, and this was to take precedence over other desirable objectives.

¶9 THE INTEREST RATE LEVER

When it came to the problems of money and money supply, there was also an orthodox monetarist solution. Friedman had emphasised that in any inflationary situation, the *quantity* of money was found to be in excess of the volume of goods and services which it commanded. Sir Stafford Cripps had arrived at the same conclusion some thirty-five years earlier, when he announced that inflation was simply a case of *too much money chasing too few goods. His* remedy in those days was to raise taxation until it mopped up the surplus purchasing power. It worked after a fashion, but it also created an era

of miserable austerity which would not have been acceptable to a more affluent electorate in the nineteen-eighties.

So what to do? It was still necessary to cut back on monetary growth, so that it would not outrun any improvements that might be achieved in productivity. Cut back drastically on government spending? Well of course! that would have to be done in any case. But due to delay factors involved in the phasing out of previous commitments, it might be some time before such spending cutbacks could take effect.

What about the raising of interest rates? Treating money like any other commodity by making it more expensive! In May of 1979 the MLR, which at that time was the official guideline on bank lending, was already at 12%, which meant that even the very best copper-bottomed loans could not be got at less than 13%, and for the ordinary commercial borrower with adequate security the rate would be 2% higher still.

In his first budget the new chancellor, Sir Geoffrey Howe, in exchange for a number of tax concessions intended to promote individual initiative, raised MLR to a whopping 14%, at which level it was confidently expected to blow all the froth and bubble out of the system, leaving the economy with a more moderate demand for credit, and a consequentially reduced money supply.

¶ 10 SPARKING OFF A LENDING BOOM

There were repercussions to this *dear money* policy which we shall discuss presently, but first of all it is necessary to consider whether it succeeded in its principal objective. Did it indeed frighten off the irresponsible and the non-productive, so that there was a modest and adequate supply of bank credit for the entrepreneur, the industrialist, the farmer and the technologist who were adding to the nation's wealth? Also, did it happen quickly enough, so that the legitimate users of borrowed capital would not be too heavily impacted?

Not a bit of it! Sir Geoffrey's dramatic raising of the interest rates seemed to spark off a veritable boom in money supply which continued right through the following year, — and as an indication that his initial sally into the monetary maze had not made enough

penetration, he issued a mini-budget in the autumn of 1979 which pushed up the MLR by a further 3%.

17% as a base for bank lending! 18% for the plushest of corporate loans! 20% for an ordinary overdraft! These were figures which the average industrialist would prefer not to think about as he struggled to remain viable through the recession which he saw looming on the horizon. It was staggering. It was unprecedented. But still the process of excess money creation persisted until, by the spring of 1981, the country's industrial and commercial base had suffered a considerable amount of damage.

So what had happened? Why was it that in this celebrated instance the orthodox monetary device of cutting credit by raising interest rates had failed to function? Economists who had comfortably and confidently charted their way through the Keynesian era were suddenly stumbling and feeling for their next step forward. Others had turned back to rewrite some chapters of the economics textbook. All were bemused and somewhat bewildered by this new departure into the unknown.

Upon reflection, there would be some fair-seeming explanations. It was said for instance that in the economic conditions of the eighties too many companies had become locked in with their commitments, whether to capital developments or staple long-term contracts, and were simply unable to make an immediate re-adjustment of their bank borrowings despite the higher cost of money. So they stumped up for the increased interest charges just to be allowed to stay in business. The impact on their costs would be met by higher prices or slimmer profit margins.

Amongst the weaker brethren, those who had already ceased to trade profitably as a result of the impending recession, — and who were not in a position to raise their selling prices, — the accumulating interest burden would be financed by an extension of overdraft limits, so that these firms would end up by borrowing more money to pay the interest on the money already borrowed. A crazy situation, which would only be allowed to continue for as long as their bankers were willing to go on lending up to and beyond the limits of the available security! Many of the receiverships and liquidations which were precipitated during this period took place because the banks had

lost confidence, and decided to foreclose on their extended positions.

It was also suggested that Chancellor Howe's strategy had been thwarted to some extent by elements within financial and banking circles who did not react predictably. The unhealthy premium on credit money had created a special class of speculator who took advantage of any differential on interest rates to borrow on the best terms, and re-lend at one or two percentage points higher up the scale. This might be individuals in privileged financial positions, or the accountancy departments of large corporations who would always have access to large amounts of bank finance, and saw that there was extra profit to be made in shuttling funds from one short-term position to another.

Makes you think, doesn't it, that there was something else going on which we have not already fathomed? Apart from the sound and well-secured credit facilities which the banks were extending to a vast range of industrial and commercial customers, were they also getting involved in speculation, — creating volumes of inflationary paper for dubious enterprises where the main attraction to them was the high rate of interest? Dear money! Scarce money! In the prevailing climate none of it was going to be left around doing nothing. Could it be that the financial sector, with its powers of credit creation, had been given a positive incentive for creating more of it than ever?

¶ 11 THE PRIVATE SECTOR GETS THE MESSAGE

These are questions which will again come to mind as we get into the later stages of the argument. It had been fashionable in some quarters to portray economics as an exact science, a calling and a profession bound by inexorable laws of supply and demand; input and output, charts, graphs and statistical references which could only be understood by economists themselves. When Sir Alec Home, Tory prime minister of the nineteen-sixties, confessed that he did his calculations with a box of matchsticks, his adversary Harold Wilson laughed out loud, and a smart political columnist called Bernard Levin sneeringly called him a *cretin.* But in the end it was seen that Home's matchstick juggling had handed on a more balanced economy than Wilson, the technological whizz-kid, would bequeath to his less fortunate successor.

Economics, it seemed, got on better when it was not left too much in the hands of economists. And once again the economists had been confounded. Some of them would quickly adjust their thinking, start looking for the fallacies and the inconsistencies within a banking system which could so utterly thwart and defy a popularly elected government. Their researches would lead them into some unexpected conclusions, invoke criticism of Establishment practices which had formerly gone without question, and help to provide a congenial atmosphere for the changes which must come if the money bomb is not finally to explode in our faces.

As for Mrs. Thatcher's chancellor, Sir Geoffrey Howe, that stout-hearted exponent of Friedman-style monetarism, he would survive in office to see some of his tough, uncompromising policies have their desired effects. Inflation, which in the beginning had just seemed to follow the interest rate upwards, finally started to come down again as commerce and manufacturing industry got the message. Faced with closures and redundancies, even the most militant trade unions in the private sector realised that frequent strikes and unproductive wage settlements would simply price their members out of jobs. A firm but humane approach to the problems of British Leyland, the semi-nationalised car giant, broke the stranglehold of the wreckers within that disorientated conglomerate, and held out the hope that it might once again be able to compete on international markets. The steel-workers held a national strike which lasted for thirteen weeks without manufacturing industry going short of steel, and without any breach in the new governmental policy of staying out of trade disputes. The civil servants, the hospital workers and the train drivers all had their day of glory as they tested the official nerve and found that its resolve was not to be broken. Wage settlements moved progressively lower, and under increasing competitive pressures, private industry struggled hard to hold its prices.

It was different of course with those nationalised corporations which had been conceived in the days of the socialist Nirvana. Wherever there was a monopoly position, the costs of dear money and reduced capacity working were immediately slapped on to the backs of the consumers, and a prime feature of the consumer price index during 1980-81 was the remorseless increase in charges for telephones, postages, gas and electricity.

So the first two years of the Thatcher Government's formula to

cure inflation and revive British industry had produced some strange contradictions. These included escalating charges in all the public utilities, and previously unthinkable costs for fuel and energy, — whilst the Tory dedication to individual incentive and private enterprise was mostly observable in the default, as the stringent anti-inflation policy clobbered manufacturing industry, turning whole industrial estates into wastelands, and creating a record number of bankruptcies within the wealth-producing sectors of the economy.

¶12 COUNTER-INFLATION IN A RECESSION

It is no function of this treatise to deride or denigrate what the Thatcher Government was trying to do. Most of its policies in the social and industrial field were eagerly supported, long overdue, and their success vital to the future of the British nation as a whole. But to agree the aims is not necessarily to concur with the methods. It had all been achieved at the cost of high unemployment and loss of much of the country's productive capacity.

It would be argued in extenuation that much of the downturn in industrial and commercial activity had happened because the Government's monetarist anti-inflation measures coincided with a world-wide recession which deepened throughout Western Europe and America during 1980 and 1981, and that the U.K. was not alone in maintaining a very high level of interest rates during that period. But we are becoming very pertinent and persistent, you and I, as we probe deeper into the mysteries of the money problem, and presently we shall be asking ourselves what causes a recession in any case.

Meantime we have had our first close look at monetarism, and judged it to be a kind of blunt instrument which knocks down the good along with the bad, punishes the innocent along with the guilty. All those factories and workshops which closed their doors, — had it mainly been because of their inefficiency and failure to compete, the bloodymindedness of their workforces or sheer managerial ineptitude? Were they really making goods which nobody wanted, or at prices which the public was unwilling to pay? Did it make sense to stop producing textiles in Dundee or Manchester, and buy them instead from Hong Kong or Taiwan? The Taiwanese businessman obviously paid considerably less for his hired labour. But was he also paying

less for his borrowed money?

You remember how we started by defining *money* as simply a monetization of existing wealth? It's one of our basic principles, and we're going to have to stick with it if the whole subject is not to become too baffling and utterly confusing. It was real wealth that disappeared when the neighbourhood factory closed its doors. Agreed? And because the wealth had disappeared, it was correct that the financial credit which monetized that wealth should also be cancelled. So to that extent the Treasury had achieved a reduction in money supply.

But why go looking for a reduction in money supply where it represents real assets productively employed in the service of the community, — like that neighbourhood factory that went on turning out washing machines, or T-shirts or screwdrivers, till the company went bust because it could not afford to pay 20% for its overdraft facilities?

Friend, you're becoming too pertinent for some people's peace of mind! We have never tried to deny that there are fallacies inherent in the conventional wisdom about credit creation and the brokerage of money, — and the manner in which it can affect the lives of the people. So if you're getting interested, we'll move on to the next stage of the argument.

CHAPTER III

¶ 13 THE BOOM-AND-BUST SYNDROME

What is the difference between a recession and a depression? A wag once explained that it's a *recession* when the other fellow loses his job. It only becomes a *depression* when you lose your own.

So it would appear that the difference is one of degree, and reflects the point of view of the beholder. Much more important for us in this context is to discover what causes depressions and recessions, booms and slumps, and what can be done to avoid them.

Some people will tell you that nothing can be done to avoid them. They will explain that trade traditionally goes in cycles. Periods of expansion are followed by compensating spells of rundown and restraint. Spasms of high economic and industrial activity give way ultimately to sluggishness and over-production and under-capacity working. It's the way it had always been in the past, and there was no reason to suppose it would be any different in the future.

It's all something wrapped up in the obscure science known as economics. Ordinary mortals are not supposed to aspire to the answers, — and must never question the conventional wisdom.

¶ 14 CRISIS OF OVER-PRODUCTION

Suppose, however, that we *do* question the conventional wisdom! Naturally we will begin by getting the conventional reply. We will learn that booms and busts, expansions and depressions, are

all normal phenomena of the modern industrialised economic cycle. In a technological age the facilities of mass production are capable of over-supplying even the most extravagant of human needs, — so that only for a limited period of time can the producers be given a free hand to turn out goods and services at the very limit of their sophisticated capabilities. Inevitably the pent-up demands are satisfied, consumer purchasing falls off, goods start to pile up in stock rooms, marshalling yards and warehouses; factory orders slow down, capital spending is slashed or reduced, and there is less activity in the construction industry. A whole host of computerised monitoring devices keep recording the slackening economic tempo, like a doctor sweating on the health of a wealthy patient, — and almost as though the wish were father to the thought, the word goes out that the country is heading for another slump.

Does it have to be that way, you might wonder? Does human nature really function in such giddy cycles, — getting into a hysteria about new houses, new refrigerators and new cars, forcing up the sales and the production, — and incidentally the prices, — as labour and materials get scarce and costly, and manufacturers lay down extensions to their factories, — only to find that when the new plant has gone on stream, the market is no longer interested?

We know it's not really *like* that in our personal lives, don't we? We don't live in a cyclical round that alternates between torpor and frantic hysteria, — one year stocking the house and garden and putting a new car in the garage, — the next year scraping along on a minimum of expense or effort, and putting all the spare cash in the piggy bank. Even if a number of us do tend to operate that way, we certainly don't all do it at the same time, — and given the diversity and foibles of human nature, the vast range of personal and family circumstances which determine our spending habits, it's hard to imagine that even the most volatile of consumer patterns could fully explain the boom-and-slump syndrome.

Besides, what's our conventional apologist going to say about those awful depressions such as the one that followed the 1929 Wall Street crash, when large numbers of people were in need of both work and consumer goods, and yet the factories lay idle? Surely that could not be attributed to a crisis of over-production?

¶15 ASKING MORE PERTINENT QUESTIONS

Oh! so now we're starting to ask more penetrating questions. We can't any longer be fobbed off with the simple conventional answers. To acknowledge our economic coming of age, the orthodox economist may consent to talk to us at a more sophisticated level.

He will admit, somewhat coyly, that these recurrent recessions and depressions are not just a matter of producer and consumer patterns,—that they do in fact have something to do with the regulation of the money system. During those spells of frantic expansion, for instance, whilst factories and workshops were rapidly buying in materials and employing labour to fulfil the demands of a booming market, they were financing their activities through the banking system in the form of loans and overdrafts. In the main, therefore, they were only able to cope with the expansion because the banks were both willing and able to supply them with credit.

Over a sustained period of boom activity, the demands for credit would tend to go on rising, so that bank lending would go to the limit of its reserves and perhaps beyond. Inevitably there would be a desire on the part of the more committed institutions to slow down both the demand and the lending, to look more closely at the least secured of their creditors, to search around for ways and means of putting on the brake.

Now the orthodox device in the banking industry for putting on the brake is to raise interest rates, and thereby make borrowing more expensive. In recent years this has generally been done as the result of a nudge from the Central Bank, which in Britain is the Bank of England, and in the U.S.A. is the Federal Reserve. Except in Switzerland and West Germany, interest rates were high all over Europe at the beginning of the eighties, and if you ask our consultant economist why this should be so, he will probably reply that it was in an effort to combat inflation.

At this stage, if you've read your *Lemming Folk,* you might just recall an admission by Milton Friedman that high interest rates were themselves a cause of *secondary* inflation, so you then enquire why it should be regarded as such good financial practice to tackle *primary* inflation by the injection of secondary inflation. And while you're at

it, what's it all got to do with the forcible de-monetization of real assets, such as that neighbourhood factory which was performing a useful job for the community until a 20% overdraft rate drove it out of business?

Bit like the chicken-and-the-egg syndrome, isn't it? or the dog chasing its own tail! An expansion of bank lending to cope with demand leads to higher interest rates, which in themselves fuel inflation, which has to be tempered by even higher interest rates, — which eventually kill off demand, and lead to closures and redundancies because unfortunately it's all been happening against the background of a general recession imported from abroad.

But why? why? why? And have we learned any more about what causes recessions in the first place?

¶16 SCOTTISH BANKS AND THE OPTION CLAUSE

Getting a bit fogged? Punch-drunk with the repetition of slogans and cliches? All right! Let's digress for a little while, take a look at the type of recession which afflicted our forbears in a previous century.

Modern banking had begun in Britain with the formation of the Bank of England in 1694, and the Bank of Scotland some two years later. All banks based their operations upon an initial stock of gold, against which they issued promissory notes which had at first to be instantly redeemable in bullion when presented at the point of issue. But as related by Henry Meulen in his *Free Banking* (first published by MacMillan & Company in 1934), the situation in Scotland changed after the formation of the Royal Bank in 1727. The early directors of the Royal, seemingly possessed of a mischievous turn of mind, and eager to discomfit or even destroy their longer established rival, mounted raids upon Bank of Scotland offices in which large amounts of banknotes were presented for immediate redemption.

A rundown on gold reserves meant a corresponding restriction of the note issue and a severe curbing of a trading bank's activities, so once the implications of the Royal's guerrilla tactics had been thoroughly appreciated, the directors of the Bank of Scotland introduced an *option clause* into future note issues. This was simply a condition under which they reserved the right in certain circumstances to delay the act of redemption, whilst contracting to pay

interest at the going rate during the intervening period.

This put an end to the raiding of gold reserves by one bank against another. In so far as Scotland was concerned, it was also a defence against foreign speculators who were not beyond draining the gold from the Scottish banking system whenever there was a chance of making a profit either in London or on the Continent. The Royal Bank itself was glad to adopt the *option clause* after it had been subjected to some of the embarrassments first practised on its local rival, and the other Scottish bank, the British Linen Bank, founded in 1746, is recorded as having been obliged to take the same action a few months later.

Banking was a growth business in the middle of the eighteenth century, and every year saw the foundation of community and provincial banks, many of them with inadequate expertise and financial backing. When these also adopted the *option clause*, the system was open to abuse. Finance houses were resorting to the delay mechanism, not as a justifiable protection for their reserves, but very often to conceal the fact that they had no reserves at all. As a result, public confidence in the note issues was being undermined, and the notes of some of the less scrupulous operators were traded at a heavy discount.

Eventually there was a call for government legislation, and by an Act of Parliament in 1765 the *option clause* was abolished, making it once again obligatory upon all banking houses to redeem their notes in gold or silver on presentation at the counter.

¶ 17 THE SOCIAL CONSEQUENCES OF RESTRICTING CREDIT

Meulen clearly illustrates the effect that this act was destined to have upon Scottish social and economic history of the mid-eighteenth and nineteenth centuries, — an effect which has been almost totally ignored by social and political historians. There were, he indicates, recurrent periods of crisis in English or Continental markets when gold was at a premium, and suddenly worth more to the gregarious financier than bank deposits on either side of the border.

Shorn of the *option clause* which would have allowed them to delay the transaction and discourage the speculator, Scottish bankers

were subjected to sudden and unexpected depletions of their gold reserves as they were called upon to redeem considerable portions of their note issues. This had two effects upon their activities. In the first place it made them cautious about expanding their credit to local trade and industry. Secondly, when they had been exposed to speculative raids from across the border, with a consequent drainage of their *specie* into the London market, they reacted quickly to protect their remaining gold store "by a ruthless calling in of loans, levelling at one blow scores of competing employers".

The Scottish bankers, it had been explained, early established a high reputation for viability and integrity, and as a result their note issues commanded much greater confidence than those of their English counterparts, who had simply defaulted in times of gold scarcity. But there was a penalty to be paid in terms of domestic trade and prosperity as the *ruthless calling in of loans levelled scores of competing employers.*

¶ 18 DISTRAUGHT WIVES AND HUNGRY BAIRNS

From time to time in this series of volumes we have had to stop and consider some social or economic factor which has somehow been omitted from the pages of recorded history. The enigma of an impoverished Scotland whose hardy and erudite sons had done so much to explore and develop the New World, after failing to find prosperity at home, is now belatedly revealed and understood. So also is the origin of those *mean Scotchman* jokes, for years a feature of music hall comedy, and epitomised in the spectacle of mouldy *bawbees* trapped in a moth-eaten sporran. In a more serious vein, it had often been remarked that old Scottish country folk, whilst making you welcome at their table, or willing in an extremity to offer you the shirt off their backs, would still adopt any device to avoid parting with money.

Obvious, isn't it? The chronicle of nineteenth-century Scottish banking records the frequent and sometimes drastic shortages of *specie*, — that is, gold and silver coin, — and when it resulted also in a curtailment of the banknote issue, it reflected upon the economic life and the attitudes of the people. A *ruthless calling in of loans* that *levelled scores of competing employers!* Can you imagine what an

effect that might have had upon some growing Lowland township where the local mill or foundry owner was using bank finance to expand his business in face of a brisk demand for his products? Trade and wages were good. Prices were stable. The town and the surrounding countryside were prospering.

Then the blow fell. Following instructions from his head office, the bank manager was obliged to call in a proportion of his outstanding loans. The main local employer was unable to meet the demand without a forced sale of stocks and a consequent cutback on production and labour. Thus a thriving little town with a promising future was thrust into misery and depression, not because of any irresponsibility in its workforce or incompetence in its management, but because gold or silver had been moved from bank vaults in Edinburgh, and transferred to London or Paris.

There was no social security in those days. When a breadwinner lost his job, and the family stock of savings had dwindled away, there was real hardship and misery in many a Scottish home. Men who had risen to heights of valour on many a foreign battlefield, — or whose sons and grandsons would people the faculties of famous seats of learning, — returning home to distraught wives and hungry bairns because the bankers were calling in their loans, and local commerce and industry had become atrophied for lack of capital!

¶ 19 PREOCCUPIED WITH THE SYMBOL OF WEALTH

Now *that* was scarcely a crisis of depressed demand and over-production, was it? A case of rapacious trade unions pricing their products out of the market, and their employers into bankruptcy? A situation of inherent instability with shaky entrepreneurs on unsecured loans pushing their luck beyond the limit of their capabilities? According to the banking histories it was none of these things, just a matter of caution and decorum within the prevailing monetary wisdom, which dictated that credit creation should remain strictly in ratio to the bullion reserves that gave it backing.

We wouldn't fall for that one nowadays of course. Britain came off the gold standard in 1927, and we have not been able to redeem our banknotes for sterling since the beginning of the First World War. Today the High Street banker will willingly sell you gold

sovereigns for paper pounds, but at odds of about forty-five to one, and following the 1982 Spring Budget, he will additionally charge V.A.T. on the transaction.

So what is the relevance to our modern-day economy of that sad little insight into nineteenth century Scottish history, whereby a law enacted by a British parliament, sitting many miles away in London, brought the misery and degradation of unemployment to many a humble home? Just this, — that then as now, the prevailing economic and monetary wisdom had lost sight of the reason why money was created in the first place. Those eighteenth and nineteenth century bankers had become blind to the real wealth around them in their preoccupation with the symbol of wealth, which in this case was the gold.

The fact that precious metal had been uplifted from a Scottish bank vault and deposited in England or France, had not taken a single sheep or lamb or calf from a Scottish hillside, neither had it detracted one iota from the skills of hand and eye which the Scottish craftsman wielded at his bench or lathe or forge. Life was there as usual, so also was hope and enterprise, and the need for products and services which local industry could well supply. Yet it was all allowed to be devalued and diminished, the hope stilled, the enterprise stifled, because of a banking propriety which had no place in either Christian or economic laws.

In hindsight one cannot blame the bankers. They were acting in accordance with their own strict code of procedure, and no doubt they feared that chaos and disorder might ensue if they permitted themselves a waiving of the rules. Their bank paper was only as good as the confidence it inspired; and in their experience that confidence was only maintained by a guarantee of conversion into gold or silver on demand.

¶20 MODERN DAY COMPARISONS

What then of our position today? Does anyone seriously believe that even at the going rate of about forty-five paper pounds to one gold sovereign, there would be enough precious metal around to convert the £10,000 million of banknotes currently milling about in our pockets and tills and cash registers? Yet no one starts a panic, or

threatens a run on the banks. Sovereigns are purchased for keepsakes, or as a hedge against runaway inflation, certainly not for the financing of commercial transactions. We know that the value of our paper currency is being surreptitiously eroded month by month and year by year, but it will not suddenly become worthless by either a banking default or a governmental decree. So we continue to live with it, to accept it in payment for our labours, and to pass it around in exchange for the necessities of a civilised existence. *We do so whilst remaining in almost total ignorance of the underlying securities which support its value.*

So we've got away from that rigid adherence to silver and gold. There will probably never be another depression artificially induced by a raid on the bullion reserves. Yet in the social and industrial climate of the nineteen-eighties, with conservative-style governments in both Britain and America pursuing monetarist policies advocated by the free-market economists, conditions were being created which seemed broadly similar to what had obtained in nineteenth century Scotland when the bankers suddenly narrowed the basis of credit. Factories and commercial houses started to close down. Many thousands of good and capable workers were thrown idle. Teenage school-leavers besieged the remaining viable enterprises in a forlorn hope of finding their first paid employment.

Money had become very scarce, they said. There wasn't enough of it going round to finance the jobs that had to be done, — certainly not enough of it to employ even a fraction of those millions who registered at the exchanges.

Why? In an age when credit could be created by the flick of a switch on an electronic comptometer, how could money ever be allowed to get so scarce that it did not fulfil the needs which the general community demanded of it? Even with all our modern sophistication in banking, had we fallen into the same monetary trap which brought bouts of economic distress to nineteenth century Scotland? Were we fastening all our concentration upon the *symbol* of wealth, rather than upon the reality, which was bound up in the assets, the power, the potential, the collective capability of a mature and intelligent nation?

¶21 WHY NOT JUST STOP INFLATION?

All right! there were many complex social and psychological factors read into the economic policy initiated by the British Tory Government in 1979. Some things had to change, if the whole economy was not to slide into a collectivised morass. Tough decisions required to be taken, many people in all classes of society had to be jolted out of their easy ways, and their performances judged by the exigencies of the market. A fossilised trade union movement, which seemed unable to reform itself, would somehow have to be made accountable to the nation, instead of to its union overlords. There were times when the authorities would have to be seen to do one thing, whilst surreptitiously doing another.

Nevertheless there was still a basic misunderstanding, wasn't there, when economists and cost accountants, traders, industrialists, the finance departments of local authorities, — and even Treasury ministers, — spoke occasionally about money being scarce. What they might have said, if they had been more honest, —or better informed, — was that credit had been curbed as a deliberate act of government policy, etc.

It had of course been made clear enough why the credit curbs were deemed necessary. The main objective of monetarism, with all its attendant pain and suffering, was to find a permanent cure for inflation, — and such was the general mood of alarm and resentment against that economic scourge that the public at large were willing to follow any policy which held out a possibility of bringing it under control.

But still there was something wrong, wasn't there? They kept talking about *reducing* inflation,—or slowing down inflation. No one was talking about *stopping* inflation,—or if they did, it was hard to pin them down long enough to extract a commitment.

So why couldn't we just *stop* inflation,—if everyone was resolved that that was the most urgent thing to do? Also, was it simply impossible to accomplish this without a deliberate *demonetization* of assets, resulting in depressions, unemployment, and a reining back upon the hopes and aspirations of the people?

Something odd about the system which we still don't understand? Some anomaly, some inconsistency which has been obfuscated and obscured, and of which the average citizen has yet no adequate knowledge? Many reformers have believed for a long time that there is such a basic inconsistency, — and have preached and campaigned in an effort to expose it.

Others, particularly in the late-nineteenth and early-twentieth centuries, decided that the fault lay in capitalism itself.

CHAPTER IV

¶22 THE ORIGINS OF SOCIALISM

Even in those days when financial speculators were filching gold and silver bullion from the new industrial areas of Scotland and the North, — and thereby inducing conditions of depression and deprivation in the midst of plenty, — there were already men who sensed that the system was faulty, and yearned to change it for something better. Many of these were poor working men who gave up their days to backbreaking labour, and their nights to a study of whatever economic and political books might come their way.

They read the works of Babeuf and Voltaire and Rousseau, and latterly of Marx and Engels and Robert Owen, and tried to rally other working men to an understanding of what those writers were trying to tell them. When the new theories which were thus propagated came into conflict with the industrial establishment of the day, there was strife and occasional bloodshed, and a recognition that things would eventually have to change.

Those proletarian crusaders called themselves socialists, and they believed, — as much from the evidence of their own eyes as from the readings of their political prophets, — that capitalism was so unjust and inequitable, so corrupt in its pursuit of gain at the expense of suffering humanity, that it must finally collapse under the burden of its own contradictions. Not that they were willing, in the main, to sit back and wait for the crash to happen! Socialists organised themselves initially into secret societies, political clubs

and labour unions, braving the threats of jail and victimisation with which an alarmed employer class endeavoured to repress them out of existence. Latterly as they attracted support from the middle classes and the intelligentsia, they formed the nucleus of powerful political parties which started to bid for power in their own respective countries.

¶23 PERFECT SYSTEM THAT WAS LONG IN COMING

The socialists of the eighteenth and early nineteenth centuries had not had far to look for the abuses which, by their standards, made capitalism an affront to all mankind. Child labour was rampant. Working hours were excruciatingly long and ill-rewarding. The average industrialist seemed to feel that he was only obliged to provide a subsistence level for his workforce, that they were necessary beasts of burden fortuitously available for the maximisation of his production and private profit. There seemed little of Christ's joy and gracious mercy in those "dark, satanic mills". The system was so obviously geared to provide wealth and luxury for the few, privation and misery for the many.

Yet those who had wit and perception, and the leisure to stand back and use them, could see that the Earth was truly a bounteous place, rich in the resources and perquisites for a full and satisfying life, and that man's boundless energy and ingenuity was constantly making it potentially richer. Only the distribution seemed to be wrong. When people starved, it was not generally because food was not available, — only that it was not available in the right place and at the right time, — *and at the right price.*

Socialists had an answer to all this. They said that it was the rapacious desire for private gain which produced such an unequal distribution throughout society. They therefore proposed that capitalists should be dispossessed of their factories and their workshops, their stores and their commercial houses, that their machinery and their property and their functions should be taken over by the State, which would then operate them for the benefit of the whole population. This process was called nationalisation, and at the turn of the century it was the firm policy of all socialist parties throughout Europe and America to campaign for the nationalisation of all forms

of *production, distribution and exchange.*

Of course their opportunity was long in coming. The prosperous property-owning and commercial middle class which grew up with the Industrial Revolution had started with all the levers of financial and political power in its hands, and these would not readily be relinquished. So it was the lot of several generations of socialist emancipators to go on dreaming and aspiring and working for a realisation of their ideals throughout the whole of their natural lives, — ideals which in their minds would remain for ever perfect and untarnished because they would never see them put to the test.

¶24 SOCIALISTS WHO READ THEIR BIBLES

It was common in those days for conscientious, liberal-minded people to claim that they were socialists because they read their bibles. Contemplating the want and injustice that was all around them, they argued that capitalism as it was practised was incompatible with the Christian faith, and that God's people were not intended to eke out their lives in a constant struggle for economic survival.

Yet when the cataclysms and disruptions of the First World War finally produced a situation in which socialism could be practised on a grand scale, it was implemented by a breed of men who despised all forms of religious belief as but a drug for the sedation of the masses. After the consolidation of their October Revolution, the Russian Bolsheviks instituted a campaign of terror, murder and persecution against the entire Russian Orthodox Church, as a result of which many thousands of priests and Christian laymen were done to death, their churches burned and their treasures plundered. It was claimed in extenuation of these atrocities that the religious hierarchy had been too close to the old Tsarist Imperial establishment, and that it would require to be swept away along with all the other trappings of rank and wealth and privilege.

It was not therefore a form of Christian socialism which finally made its mark upon the world. For a number of years, whilst the Union of Soviet Socialist Republics was being forged by blood and iron and everlasting terror, news was slow to filter through to the West, so that it was still possible to retain one's Christian conscience along with a profound belief in the goodness and compassion of state

socialism. Leading Fabians such as the Webbs and George Bernard Shaw robustly supported this point of view, insisting that the social and economic system which was being painfully put together over there in the Russias would eventually become a model for the entire human race.

It helped of course that Russia's socialist hierarchy were called Bolsheviks, and that their adherents in Western countries chose to be known as communists. Communism became identified as the Russian brand of socialism, which had of necessity to be more brutal and compulsive due to the repressive nature of the Tsarist Absolutism which it had so recently replaced. So it was still possible to read one's bible and be a socialist.

¶25 COLLECTIVIST IDEAL OF THE FUTURE

Neither had anything happened to disturb the ideal socialist concept of an all-providing and benevolent state. Marxism was crude when put into practice, but in the more gentle milieu of Western democracy there were refinements which would ensure that the transition took place without wholesale bloodshed and suffering. Even capitalism had undergone substantial amelioration, had acquired a sense of social responsibility, since the days of William Carpenter and Robert Owen. Indeed many of the more enlightened capitalists might acquiesce in the great gradual revolution which was about to determine the future, for they were not to be dispossessed of their shareholdings and their properties without compensation. Not pure unadulterated socialism! but social democracy! That was to be the Western model, and certainly the method most favoured in the United Kingdom.

The main thing was that despite all the excesses of the Bolsheviks, despite Stalin's purges and the slave-labour camps of far-off Siberia, the principles of socialism were still unchallenged as the vision for a just and equitable society. Capitalism had proved remarkably resilient in its response to change, and even the great prophet Karl Marx had refrained from fixing a firm date for its demise. But there was no doubt in the minds of all advanced political thinkers that it was only a matter of time. Private gain could never equate with public good. The social and cultural needs of a

community could not indefinitely be made subordinate to the whims and caprices of entrepreneurs intent on the maximisation of their own profits. Recalcitrant or reformed, capitalism was destined to collapse under the weight of its own fallacies and contradictions. The new social democracy would borrow from its techniques, its methods and its acquired technology. But it was nevertheless certain that privatism and individualism had failed. It was the collectivist ideal which would lead mankind forward into the next century.

¶26 ADAPTING THE MIXED ECONOMY

Not till the Labour Party's General Election victory of 1945 did it become possible for the British brand of socialism to be tested in practice. Fortified by a massive Commons majority, Prime Minister Clement Attlee quickly set about implementing many of the nationalisation measures dear to his supporters' hearts. In that first parliament after the war he was to nationalise the Bank of England, the coal industry, the railway network, gas and electricity supply, road haulage, and latterly the large scale manufacturing of iron and steel. The Tories who took over in 1951 had neither the confidence nor the conviction to turn back the collectivising process once it had begun, though they did put an immediate stop to further nationalisation, and ultimately unscrambled the iron and steel industry, which was sold back into private ownership.

Thirteen years later, in 1964, the British electorate gave Harold Wilson a somewhat qualified mandate to continue where Clem Attlee left off. There were proposals for the nationalisation of insurance and banking, the building industry and shipbuilding, as well as a resumption of state control over the steel companies and long-distance road haulage. By this time, however, there was a new phrase upon the lips of the gradualist revolutionaries. They talked in terms of "the mixed economy", which was evidently their conception of a situation in which state control would co-exist with private industry.

So already their experiences of socialism in practice had obliged them to revise those earlier ambitions to nationalise all forms of production, distribution and exchange. It seemed that even the Western democratic brand of socialism was not in itself the ideal

social and economic system for leading the world into the twenty-first century. Hard reality had re-shaped the vaguely idealistic notions of the nineteenth century theorists. It was no longer practical politics to talk about sweeping away all the relics of a capitalist past. Socialist administrations would continue to legislate for the takeover of basic production industries, but there were other areas where they would be satisfied with a measure of remote or even partial control. They had accepted, after twenty years of responsibility in government, that though they themselves could distribute wealth till the end of time, it needed someone to create that wealth in the first place.

Capitalism, the wily old *bête noire* of Karl Marx's *Das Kapital,* had won itself a reprieve.

¶27 THE PUBLIC SECTOR DRAGS ITS FEET

So when the conservative Margaret Thatcher came to power in May of 1979, it was the "mixed economy" of Harold Wilson and Michael Foot and Jack Jones and Hugh Scanlon and trade union general secretary Len Murray which she inherited. It was also an economy which was failing to perform up to national expectations, — which was why an electorate that had formerly been dominated by social democrats opted for a revival of some of the old dynamism associated with modern profit-making industrial capitalism.

And what did they find, that 1979 Tory leadership, when they set about some of the reactionary legislation which they felt was necessary to get the country out of its self-imposed lethargy, and into a state of economic fitness where it could compete with the rest of the world? Just this, — that their most intractable problems were to be found within the public sector industries which had been nationalised in keeping with the revolutionary teachings of Karl Marx and Sidney Webb and Julian Huxley and Harold Laski! British Leyland, the massive car-making conglomerate which had absorbed some of the proudest names in British motor engineering, was requiring annual subsidies of about £800 million just to stay in business. British Steel, re-nationalised by Harold Wilson in the nineteen-sixties, had run up losses of over £1,000 million in the very year that the Tories came to power, and this also would have to be funded by the taxpayer, making severe inroads into the pool of resources that the new chancellor

hoped to create for reducing taxes and lowering public expenditure. British Rail, the nationalised railroad system which had been one of the gems in Clem Attlee's crown, showed no signs of ever being able to function without frequent infusions of public money, and when the Government's anti-inflation policy finally began to have its effect upon the wage-and-cost escalation in private industry, it was the state monopolies of electricity, posts and tele-communications who dismayed private citizens and public corporations alike by a series of swingeing increases that emphasised their total immunity from cost-accountability or competition.

Only in the private sector was there a satisfactory response to those natural economic laws which Thatcher conservatism was endeavouring to bring back into operation. Only in the private sector, in privately controlled manufacturing and service industry, was there that reaction for which the Government had planned throughout the whole spectrum of trade and productivity. The "mixed economy" of Harold Wilson and his Fabian contemporaries was a sort of limping Colossus which dragged one leg reluctantly after the other, — and the dragging leg was the state-controlled, public sector limb upon which they had built all their visions of the future.

¶28 TOUCHING ON GOVERNMENT DEBT

Socialism, the Utopian dream of the nineteenth century political revolutionaries, had been tried and found wanting. In the U.S.S.R. it had created a massive slave state ruled by a self-perpetuating bureaucracy, and offering the bulk of its ordinary citizens subsistence wages in return for docility and unremitting toil. In the Western democracies it had only been saved from total discredit and collapse by the continuing existence of private industry, and a measure of personal freedom and initiative which went on producing wealth and improving living standards even in the face of official discouragement.

It might still be some time before the more committed of the socialist doctrinaires accepted the inevitable, — that their system could not function at all without a goodly leavening of the profit-making incentives which they would for ever abhor as symbols of a divisive and outmoded capitalism. And capitalism itself, as we have already noted, was showing a remarkable capacity for moving with

the times. It could at its best become a universal provider, the medium whereby technology and man's conquest of his environment might lead everyone to a fuller, more satisfying life.

What a pity, therefore, that the entire image of capitalism had been tarnished by that monetary dogmatism which insisted upon treating money as a tangible commodity, instead of as a device for monetizing wealth! We've had cause to mention that one already, and no doubt we shall be mentioning it again before we are finished.

Remember the story of the early Scottish bankers, how they were forced to pull in their loans when wealthy and unscrupulous financiers carried off their gold reserves? The result, as we have seen, was depression, — a compulsory immobilisation of otherwise useful and profitable industry.

It was happening again at the beginning of the nineteen-eighties, wasn't it? Not only in Scotland, but all over the United Kingdom, — and in Western Europe and across the length and breadth of America! Factories closing down and useful jobs disappearing, — just because the financial system was failing as a regulator of the community's wealth and assets, — because money had become an end in itself, rather than a useful medium for the exchange of goods and services.

So are we any nearer to an understanding of this fatal flaw which is inhibiting, and bedevilling, and hazarding the future of our twentieth century society? Well, we'll get to it by and by. But friend! fellow traveller! don't try to steal a march on the rest of us by peeping at the end pages, for we can't guarantee to tailor the denouement into the last chapter, as in an Edgar Wallace thriller. Besides, it may be that it won't mean very much to you if you have not been following the clues as we go along.

There's one of the vital clues coming up now. The clue is *government debt.* And those of you who already know all about it will please champ the bit on the sidelines till the main party has caught up.

How *do* governments get into debt? And what are the social and economic consequences once they have done so? Is borrowing, — from banks, public corporations and individuals, — the only way in which a government can legitimately obtain funds with which to carry out its responsibilities? And if not, are there better ways of

achieving the same results, without affecting monetary stability?

The problem is, of course, that in older societies such as our own, the whole process has been going on for such a long time that it is difficult to see how one could make a new beginning.

But in the next chapter we're going to have a try at getting back to the beginning. We're going to do it through the eyes of a French Canadian called Louis Even, who in his parable *Salvation Island* discussed the problems of finance as they might finally come to impinge upon a completely new community.

CHAPTER V

¶29 THE CASTAWAYS OF SALVATION ISLAND

Those of us weaned on Robinson Crusoe will have no trouble adapting to the simple scenario chosen by M. Even for the presentation of his story. All he needed was a shipwreck, some thousand square miles of trackless ocean, and five survivors who strapped themselves to an improvised raft, which kept them afloat till the seas calmed and they were able to make a favourable landfall on a remote island which we presume to have been somewhat wide of the traditional shipping lanes. They would thank the Almighty for their salvation, then set about exploring their new abode to find means of longer term survival.

As you might have expected in an allegory, the castaways represented a fair diversity of human skills and experience. Tom was a prospector, Paul a farmer, Jim a cattle-breeder, Harry a horticulturist and Frank a housebuilder. Each found both means and opportunity for plying his own particular craft. Besides mineral deposits and plentiful tracts of standing timber, their island had some good arable land on which grazed herds of livestock which Jim thought he had every prospect of domesticating. Harry knew the fruit business well enough to judge from the wild specimens around him what might be done with a bit of cultivation.

Between them they prospered, what with Paul getting the crops planted and harvested, Jim and Harry producing milk, meat and vegetables, Tom working the ores, and Frank providing shelter,

furniture and amenities for the whole colony.

In their otherwise easygoing communal life there was only one constant headache, — the allocation of rewards amongst them in proportion to their labours. Paul bartered his crops in return for crude agricultural implements and building services. Jim swopped his milk and meat for timber or animal feeding stuffs. Harry reckoned to establish a twelvemonth credit with the others until his vegetables were in season, and Tom was always forging some useful gadget for which one of the primary producers was willing to keep him in food and fuel. But barter was not entirely satisfactory, since products were not always to hand when deals were being negotiated. They began to yearn for some of the sophistications they had enjoyed in the civilisation they had left behind them. And particularly they felt the lack of a money system, which none of them properly understood, and which in its absence none knew how to create.

¶30 AN ANGEL FROM THE CLOUDS

However, as it transpires in all good allegories, they were sitting together on the beach one evening mulling over this particular problem when a small boat came into view bearing another shipwreck survivor. They were so overjoyed at finding a new companion that they hauled him ashore, plied him with food and comforts, and took him on a tour of their island. "We haven't much to complain about here," they told him. "The soil and the forest are good to us. The only thing we lack is money. That would make it easier for us to exchange our products."

"In that case my own coming must have been providential," declared the new arrival, "for I am a banker, and know all there is to know about money. In no time at all I will set up a money system guaranteed to satisfy you."

"A banker!" exclaimed Paul, Jim, Harry and Frank simultaneously. An angel come down out of the clouds could not at that moment have inspired more respect and reverence. Here was an answer to their prayers.

¶31 DECIDING THE FIRST NOTE ISSUE

There are several versions of Louis Even's story, and amongst

them the name of the new arrival is made to vary. But in the original the castaways, who apparently found his surname unpronounceable, simply referred to him, somewhat deferentially, as Mr. Oliver. They gave him immediate accommodation in their meeting-house, and promised that he should have a separate residence as soon as they were able.

Thus received and accommodated, Oliver quickly took charge of the situation. He directed his new companions back to the small boat which had carried him to their island. Conveniently there was paper and ink, and even a primitive printing facility, amongst his few belongings, besides a small barrel loaded with some weighty material, which he asked them to handle with the greatest of care.

"That," he said impressively, "contains treasure beyond the wildest dreams. It is full of gold, — and gold, as you must know, is the basis of all sound money systems. It will serve as a backing for the currency which I will issue to you to promote trade on Salvation Island."

Still deferential, the five gave attentive ears to their banker as he discussed with them details of their first money issue, and the monetary unit that should be adopted. M. Even, being a French-Canadian, would naturally think in dollars, but it might just as easily be deutschemarks or francs or lire or guilders or Japanese yen or pesos or drachmas or Saudi Arabian riyals. In this particular instance, if we think of Jim and Paul, Harry, Tom and Frank as lads we might have encountered in our own neighbourhood, they would most likely be more familiar with British pounds. In any case, they agreed that night to an initial issue of one thousand, which was two hundred pounds per head, and thus decided, the original castaways went their separate ways, leaving Oliver in residence at their meeting house.

¶32 A QUESTION OF INTEREST

When he was alone, the banker's first act was to hide his "gold reserve", which he did by burying it securely, transplanting a shrub over the spot, and rearranging the sods so that it was well hidden. Then he set to work with ink and paper, laboriously turning out his own brand of pound notes, all bearing the promise to pay, and all

signed by himself as Governor of the Bank of Salvation Island. So when the colony's small population reassembled the following day, he had created its first money issue, and divided it into five equal bundles. He had also prepared five documents which he laid out for their signatures, and which, he explained, would have to be formalised before he could hand over the money.

Paul studied the document bearing his own name, and found that he was expected to put up his farm as security. Jim likewise was committing his livestock, Frank his builder's stock and Harry his vineyards.

"It is quite normal," Oliver assured them. "Money is not easy to obtain. Consider that you had none at all before my arrival. All that you will be doing is consigning your property as a surety. What would the Bank do with your farm or your livestock or your vineyard? I only need to have a charge over them against repayment of the loans."

When reminded that this was indeed an approved practice in the civilisation from which they came, the five reluctantly decided to ratify the agreements.

"There is also the question of interest," continued Oliver, very much in charge of proceedings. "In view of the fact that this is a new issue, and that money was previously unobtainable here, I don't think 8% per annum is unreasonable."

It was another critical moment, and one or two of the longer-headed members of the group might have demurred again. But sight of those freshly printed banknotes was a powerful incentive, and they could scarcely wait to get the crisp new paper currency into their hands. So before they left the meeting-house that day, all five had put pen to paper, consigning their property to the Bank, and agreeing to pay interest at the rate of 8% per annum.

¶33 MR. OLIVER SOLVES A PROBLEM

As promised by Mr. Oliver, trade on Salvation Island then increased dramatically. Everybody was happy, and for a time the banker was greeted with unfailing respect and gratitude. But towards the end of that first full year of the money issue, Tom the prospector was observed making bemused calculations with paper and pencil. He was realising as the term date drew near that he was committed to

paying the banker £216 inclusive of interest, and he had only a few notes left in his pocket. At the next island council meeting he conveyed his worries to the others, and they agreed that they found themselves in an impossible position. Jointly they had contracted to pay back a total of £1,080, — and there was only £1,000 in circulation.

Mr. Oliver was immediately sympathetic when they went to him with their problem. "Gentlemen," he explained, "you have failed to appreciate the difference between capital and interest. I have no need to take back capital in the midst of a thriving trade cycle. All I will require from you at the term date is the interest. Surely all of you are good for sixteen pounds of interest."

Much relieved, the five agreed that for the first year at least, the servicing of their loans would not present much trouble. "Does that mean," asked Frank hopefully, "that you are going to cancel out the two hundred pounds?"

"Good gracious, no!" replied Oliver. "A banker can never cancel a debt to a creditworthy client. But rest assured that whilst you are able to pay the interest, I won't ever push you for the principal. As far as I'm concerned, the community can have the use of my money into perpetuity."

¶ 34 TAXING THE ISLAND'S PROSPERITY

Thus encouraged, the five went back to their labours. But according to M. Even, life on Salvation Island thenceforth underwent a subtle deterioration. Though production was improving, and more and more goods and consumables came into being, they were not always freely marketed, as one or other of the likely customers found himself putting aside money to pay the banker's interest. Paul and Jim did best with their produce, but when Tom and Frank got squeezed, they were forced to set a higher monetary value on their services, so that eventually everyone was bemoaning the high cost of living.

When reports of these problems were presented to Mr. Oliver, he was ready with an answer. "My friends," he said, "it's all quite simple. You're complaining about money being scarce, and it's all because trade has now expanded beyond the amount of currency in

circulation. There's plenty of gold hidden away in my vaults to cover the cost of a new issue, and you've all increased the value of your properties to justify the additional security. So I propose to print another thousand pounds right away."

"For lending at 8% per annum?"

"Exactly the same as before. All that you will require to do is sign for the extra facility."

"So then we would be paying you £32 each in interest?"

"Regard it as a tax upon your prosperity. Back in the civilisation that we came from, everybody pays taxes."

¶35 TOM UNCOVERS A VITAL SECRET

We are not told whether the resourceful Mr. Oliver was able to float his new money issue, but round about this time one or other of the weaker members of the community defaulted on his loan, and in terms of the agreement, his property was possessed by the Bank, the business then continuing under its governor's direction. It was an ugly period in the colony's history, but Oliver was able to exploit his debut into the business community by creating a division of interests between the successful traders and those who were either struggling or dispossessed. For even the successful operators such as Paul the farmer found that they were obliged to rely upon him for financial assistance at times when crops were still to ripen, or when animals were fattening for the slaughter. Thus the Bank and its services became linked to the establishment, and those who seemed to have most to gain from a perpetuation of the system became its natural allies.

Even so, it was obvious that something was seriously wrong in what had once been a happy united community. It was not that the sun had ceased to shine or the rain to fall, or the grass sweeten for the flocks to graze upon. Neither did the husbandmen or the traders apply themselves with any less skill or assiduity. But it seemed that they were for ever working harder just to survive, to compete with their neighbours, to run faster and faster as a means of standing still. Saddest of all, — the former friends were wrangling ferociously amongst themselves, and no longer cared whether they put each other out of business.

In the end it was Tom the prospector who came up with the answer. Evidently he was the one who had first defaulted on his loan, and after the Bank possessed his assets, he became a somewhat disgruntled employee, wandering aimlessly about the island, combing the beaches, and generally threatening to become a charge upon the welfare. One day he found some treasure trove, amongst it an old book which had somehow escaped the ravages of the sea. Incredibly it was a book about money, and when Tom had made a study of its faded pages, he could not wait to summon a meeting of the island council.

"It's all in here," he told them, triumphantly waving his acquisition. "I've discovered the mistake that was made when we allowed Oliver to set up his system *as a debt upon the community.* There was no harm in *creating* the money, but the backing for the issue should have been the real wealth that we had among us in the shape of land, buildings and livestock. Our own council could have monetized the island's assets, and put the money into circulation without crippling us with interest. That way the volume of currency supplied could have kept pace with the prosperity that we enjoyed, — not like under this present system, where it seems to me that eventually the cleverest of you will end up mortgaged to the Bank."

Well, that was heavy thought-provoking stuff to lay before a group of simple fellows whose worldly experiences had been mainly concerned with Nature and the taming of the elements. But under Tom's promptings they began to see that they had fallen victims to some kind of confidence trick when they agreed to pay the suave banker interest on his newly created note issue. True that he had sought to legitimise his entitlement by pointing out that it was the gold he had brought with him in the lifeboat which gave the currency its backing, — and they accepted that this was in accordance with the best-appointed financial systems back home.

¶ 36 TAKING BACK THEIR ASSETS

But somehow it did not seem to be working too well on Salvation Island. They wanted to keep their note issue as a convenient means of reward and exchange, but it was becoming only too clear that under the rules which Oliver had laid down for them, their society could

only continue under an increasing burden of debt.

Fortified by Tom's confident assertions that they could create their own credit on the basis of assets which their own hard work had evolved around them, they decided there and then to confront the banker and relieve him of the bonds and signatures which he held against their properties.

It was to be a sort of popular revolution, in which the community would take back that which had rightfully belonged to it in the first place. But even in their indignation they were fair-minded fellows,and agreed that Oliver should be left with the possessions he had brought with him when he arrived on the island. An inventory was taken, to include the lifeboat, the oars, the printing press and the mysterious barrel of gold, which the financier now kept in a cellar beneath his new bank building, the most imposing structure in the whole colony.

Invading the sacred precincts, and brushing aside Oliver's resistance, they brought the barrel out into the open, and looked at it with a new curiosity. Tom the prospector, who was reckoned to know about such things, balanced it in his arms, shook it around, and declared that it did not feel like a barrel of gold to him. So they smashed it open with an axe, to reveal that it contained no more than a collection of rocks and pebbles, which the banker might have gathered on the seashore.

"Did we mortgage all our possessions for a few pieces of paper based on a collection of rocks?" exclaimed one of the five in fury.

"To think that we skulked, and almost hated one another because of such a fraud!" cried another. "Let's get after that devil!"

Frank raised the axe, but according to the final words of the parable, the banker had already taken to his heels, and disappeared into the forest.

CHAPTER VI

¶ 37 THE TRUTH ABOUT FIRST-TIME MONEY

Needless to say, you will not find Salvation Island anywhere in those vast tracts of ocean that span the South Atlantic all the way eastwards from Patagonia to Cape of Good Hope, or west towards the archipelagos of tropical paradises scattered around the approaches to Australasia. Neither will you find one-time castaways to indentify with Paul the farmer, Jim the cattle-breeder, Harry the horticulturist, Frank the builder, Tom the prospector, or that wide-awake exponent of orthodox finance, Oliver the banker. As we knew from the beginning, these are allegorical figures who, along with their island, were figments of Louis Even's imagination.

So what was the moral? When Tom the prospector had got an eyeful of that faded old book that just happened to be lying around on the beach, what was the blinding truth that sent him hotfooting back to tell the others? the revelation which struck them with such force and clarity that they were immediately impelled to confront the banker and challenge his monopoly power?

Just this, — that *first-time money, new issue money,* created upon the economic strength of the community as a whole, should pass into circulation without incurring any form of public debt. If you miss that point, then you're going to miss the relevance of much that has gone before, besides much that is still to come. So in order to illustrate the matter further, let's apply Tom's discovery to the

situation on Salvation Island at that precise moment when the colonists, having discovered Oliver's banking skills, were overjoyed at his offer to set up a local currency.

Where did things go wrong? Jim, Paul and the others were perfectly right to welcome the banker into their midst, and to solicit his help in their first issue of money. His printing press, — unlikely companion though it might have been for a shipwreck survivor, — was undoubtedly a boon in the circumstances, and Oliver's first charge upon the community might legitimately have been for his skill and labour in producing the note issue.

But to whom did that issue belong? Not really the banker,— not after he had been reimbursed for his time, his skill and his printing paper! The notes only gained credibility and value because they represented an approximate assessment of the primary products and services currently available on Salvation Island. So initially they reposed, — or should have reposed, — as a credit in the hands of the island council, who would issue them into circulation in payment for all kinds of community expenditure. Meanwhile, since they were all good friends together, they would probably leave the unused balances as a lodgment at Oliver's newly incorporated bank.

¶38 SOUND BANKING

As for the banker himself, though it is hard to imagine a sharp operator like Oliver being fully occupied by the trading activities of such a small community, he might have been content to stay around and let things grow, — on the basis that sound banking is an essential to flourishing enterprise.

And what would have constituted sound banking under the new conditions that we have laid down for the beneficial financing and currency regulation of Salvation Island? Well for a start, if that little barrel which Oliver had brought with him in the lifeboat contained even a modest amount of gold, it would indeed have provided him with a "gold reserve" on which to set up shop as a repository of currencies, deeds, certificates and other valuables on the island. Subject to council sanction, it would also entitle him to issue his own banknotes, redeemable in gold, either on demand or at some specified date in the future. In favourable circumstances these would

circulate freely along with the official issue, and would retain their value by measure of the confidence which the colonists reposed in Oliver as a sound and honest banker.

If at that stage one of the primary producers got ambitious,— if for instance Jim the cattle-breeder wanted to pre-empt the services of Frank the builder to improve his drainage and his cattle-sheds, — he might then approach Oliver for a loan, which would be negotiated at an agreed rate of interest. The funds would be advanced against the security of the bank's gold reserve, — or possibly against a *fraction* of the gold reserve, — since down through the years bankers have discovered that it is inordinately cautious only to issue notes against the par value of bullion in their vaults. Modern fractional reserve banking is reckoned to operate at ten to fifteen per cent security cover.

Even so Oliver, as a prudent man, would probably not dare to extend his loans or his note issues far beyond the underlying reserves, just in case one or other of the more prosperous primary producers turned into a gold bug, and swamped him with a bagful of his own paper money for redemption in the yellow metal. This, you remember, is what happened to the Scottish banks after the enforced cancellation of the *option clause.*

¶ 39 EXPANSION WITHOUT PUBLIC DEBT

With the benefit of hindsight, we are now providing that small Salvation Island community with a money system of considerable flexibility and sophistication. Even at his busiest, Oliver had obviously plenty of spare time for sitting in the sun and tending his garden. If Jim the cattle-breeder were to make a mess of that development project, overspend through delusions of grandeur and tie up Frank the builder for a whole season, then he might conceivably default on his interest or his capital debt, leaving the banker to decide whether he should sell him up or re-schedule the loan. Neither way was it going to prejudice the future for the community as a whole, — though Frank might feel the backwash of Jim's financial embarrassment, either through failure to meet his debts or enforced cancellation of outstanding contracts. On the other hand that might be a suitable opportunity for the island council to

launch a second note issue earmarked for redemption against some desirable public project, which would take up the slack in the builder's workload and compensate for the credit that went out of circulation when Oliver called in his loans. All economic commonsense, and all totally non-inflationary, provided there were hands, brains, skills and materials available, — and a need for the work in the first place!

Even if subsequent shipwrecks increased the population, bringing with them a blending of the sexes, and the prospect of another generation to ensure continuity in the future, there was absolutely nothing to prevent the island's economy from growing to the very limit of its physical resources. And so long as the ruling council kept pace with the productive and commercial activity by judicious issues of its own money, two distinct benefits would accrue to the lucky successors of Tom and his fellow castaways. Firstly the community would be most unlikely to suffer from price inflation. Secondly *it would be entirely without public debt.*

¶40 TRYING IT OUT IN THE REAL WORLD

So what? you might say sceptically. Easy enough to work out an idyllic system for an imaginary island totally isolated from outside influences! But in the real world fiscal and monetary policies have to contend with an infinite variety of pressures and motives, social and economic bigotries, and downright bloodyminded self-interest. Apart from the distractions afforded by an amusing anecdote, what's the relevance of Salvation Island to a society that has been suffering from penal interest rates, double-figure inflation, persistent mass unemployment and the overriding spectre of a nuclear holocaust?

Raising a banknote issue without any form of gold or security backing, — that's a financial heresy for a beginning, isn't it? No harm in trying it out on a sub-tropical island where the chaps all know each other by their first names! It might also be a harmless diversion amongst the cronies at the local bowling club, or at Muddlecombe-cum-Tooting on the day of the annual garden fete. But try presenting some of your home-made paper money in the shopping precinct next Monday morning, or across the counter of your friendly High Street bank. Unless the manager possesses a broad sense of humour, he

might just have you for trafficking in counterfeit currency.

What then is the point of pursuing the analogy if it cannot be related to our civilised existence within a mature and highly industrialised society? Has there in fact been any recorded instance of a community raising its own local currency? and if so, what was the outcome?

¶41 STAGNATION AND DEBT IN THE CHANNEL ISLANDS

For an answer to that question, we have to go back all of one hundred and sixty-five years, to the aftermath of the Napoleonic wars. One can well imagine that after such a prolonged spell of armed hostilities, the whole of Western Europe would be bursting with ideas and energy, and frantic to repair the ravages which the conflict had left behind. But in one small corner of His Britannic Majesty's dominions there was stagnation, doubt and a faltering response to the needs of the moment.

The little Channel Island of Guernsey had emerged from the wars in an impoverished condition, with very little trade and poor prospects of employment for its humbler inhabitants, many of whom were leaving to seek their fortune on the English mainland. Yet despite this threat of depopulation, there was a great deal that needed to be done if Guernsey was ever to improve its amenities and become an attraction for summer visitors. Much of the fertile coastal land was in danger of being swamped by the sea, the roads were nothing better than rutted tracks, the old church at Torteval required urgent attention if it was to be saved from delapidation, and the whole community was disgusted with the public market, which seemed to lack cover or shelter of any kind.

Years of useful work, you might think, for those brawny lads so recently demobbed from the forces! But there was one intractable, nigh insoluble problem, — Guernsey had no money. Over the previous century it had incurred a public debt of £19,137, which was costing some £2,390 in annual interest payments, and with a total revenue of no more than £3,000, there was very little left for the expenses of running the States administration. When one considered that repairs to the sea walls had alone been estimated at £10,000, it

was obvious that further borrowings on the scale needed to stimulate commerce and improve the environment would saddle the community with a debt that could barely be serviced, far less repaid.

¶42 RAISING A LOCAL CURRENCY

There was one thing that *could* be done. The States Parliament appointed a committee to examine the problem, — and it was this committee, composed of humble island citizens with no great pretensions towards learning or financial expertise, who came up with the historic recommendation. As practical men, looking around them at the stone and other building materials that lay readily to hand, at the sturdy limbs and trained muscles of the young men seeking employment, at the fresh air and the sunlight which made outdoor work congenial, they must suddenly have realised that Guernsey had wealth and assets a-plenty without running off to borrow money at crushing rates of interest. So there and then they recommended *a monetization* of some of that wealth, in the form of a States notes issue to the value of £6,000, which would be used to erect a covered market, make repairs to the church, construct roads and meet various other public expenses.

It is not surprising that this unorthodox proposal did not meet with immediate acceptance. Nevertheless, it is recorded that the first issue of States notes was authorised in 1816, in the amount of £4,000, which was to be spent on coastal preservation works, Torteval Church and a public monument. The money would be redeemed from taxes in three stages up to April of 1818, by which time the whole issue would be cancelled. The committee recommendation concluded, "In this manner, without increasing the States debt, it will be possible to finish these works, leaving sufficient in the Exchequer for other needs."

Well, the scheme worked. The island got its road improvements, its church repairs, and the essential sea walls, all without incurring a further penny in bank interest. Finally it got its covered market, financed as on the previous occasion by an issue of States notes, redeemable over a period of ten years out of import duties and revenue from butchers' shops. By the time the building works were completed in 1822, the cautious but long-headed finance committee

had persuaded the island administration to increase the States note issue to £10,000, "as being the most advantageous method of meeting debts, from the point of view both of the public and the States finances".

Further issues of States notes were authorised in 1824, 1826 and 1829, by which time, according to the official record, a total of 48,000 Guernsey pounds were in general circulation. The public, observing how the States issues had regenerated the economy without increasing the community debt, traded in their own local currency with confidence and enthusiasm. Even though there were two domestic banks in operation, each able to issue its own notes, the States currency was preferred, since it had been appreciated that the raising of debt-free money meant a considerable saving in taxes.

¶43 NO SUCH PLACE AS GUERNSEY?

All right! at this stage the orthodox financiers amongst us are either throwing a series of apoplectic fits, or trying hard to convince themselves that there is no such place as Guernsey, — on the basis that if there were, it would just *not* be allowed to go on manufacturing its own money. Everybody who lived in the real financial world had it as an axiom that money was something which appeared as a debt out of the banking system. And the fact that it appeared as a debt, upon which interest had to be paid, meant that its creation was treated with fit and proper reverence, and no one was then inclined to waste it. Bank money was "sound" money, and the scarcer it became, the better it kept its value.

As for this business of an island community printing its own note issues, once such a process had started, who was to say when it was going to stop?

¶44 "THE URGENCY OF GREAT OCCASIONS"

Well, where *was* it going to stop? Documented local history tells us that the Guernsey experiment, once started, just went on developing. As the economy expanded, the States compensated for the increased trading activities by releasing more notes into circulation, until by 1829 there was approximately £50,000 in Guernsey one pound and five pound notes passing through the hands of the

islanders, who were in no doubt that many of their public works, as well as their improved roads and new buildings, had only become possible as a result of that happy and historic recommendation by their finance committee in 1815.

Even so, it was not to be expected that such a dramatic reform could be implemented without opposition from some quarters. In 1826 a complaint was filed with the Privy Council in London that the States had exceeded their rights by increasing their annual income without Royal consent, — and though the States administrators of that day were able to provide such a lucid and competent account of their actions that the complaint was not sustained, it is surely worthy of comment that the Royal prerogative might just have been used on this occasion to prevent a community from monetizing its own local assets to the manifest advantage of its own citizenry.

London had been indifferent to the miseries and privations of the Guernsey people in 1815 when, with their revenues depleted and their trading base eroded by blockade and counter-blockade during the recent war, they were faced with depopulation and dereliction of their island amenities. The only orthodox recourse open to them had been the resort to bank borrowings, which would have subjected future generations to an intolerable burden of debt. So it was all credit to their Lordships of the Privy Council who in 1829 considered that the States acted prudently and within their responsibilities when they made specific issues of their own local currency. Perhaps the King's Councillors were influenced by the following epic lines, which appear in the text of the Guernsey reply:—

"It is said, the powers of the human mind in society lie at times torpid for ages; at others, are roused into action by the urgency of the great occasions, and astonish the world by their effects. This has, in some measure, been verified in this Island, for though nothing done in so small a community can cause a general sensation, its exertions may yet produce wonderful results within its own sphere . . ."

In subsequent chapters of this volume we shall be considering situations where *the powers of the human mind,* roused into action by *the urgency of great occasions,* have *astonished the world by their effects.* And we shall be able to establish that those *great occasions,* those dramatic advances in human accomplishment and

social well-being, would simply not have taken place had their impetus not been sustained by plentiful supplies of monetary credit at rates which kept pace with the general increase in trade and productivity.

Those humble members of that Guernsey finance committee, confronted by the prospect of torpor and misery in their own generation, had truly been inspired by *the urgency of great occasions* when they saw with blinding clarity that their salvation lay, — not in European money markets, — but in their resolve to monetize the resources that lay within their own local jurisdiction.

¶45 EXERCISING FISCAL RESPONSIBILITY

The question which we now have to ask ourselves is, how did the States of Guernsey treat the rare privilege which it had conferred upon itself as regulator of the island's money supply? Did it for instance cause a wild inflation, as might have been anticipated by the rigid advocates of financial orthodoxy? Did the local notes start trading at a discount against British Treasury notes, as happened in our own day with the floating Irish punt?

No! Neither of these things happened. Without being monetary wizards, the States finance committees apparently found no difficulty in redeeming note issues when their particular purpose had been fulfilled. Usually this was done by retrospective taxation enacted to cancel a credit, — which is a different thing from financing a debt, — and it is claimed that the only time the experiment came under pressure was in the years 1827-30, when two private banking houses which set up on the island during that period started making unlimited issues of their own paper money.

On that occasion the States were obliged to confer with the banks to prevent the situation getting out of control, and as a result of the bargain struck between them, part of the Guernsey note issue was withdrawn, reducing the amount in circulation to about £40,000, at which level it continued until the outbreak of the First World War in 1914.

Subsequently, when the banks were themselves forced to limit their note circulation by a wartime ordinance, the States met the increased demand for money by again making judicious issues of

local currency, till by the expanding years of the nineteen-fifties the total had risen to more than half-a-million.

It is claimed for the Channel Islands today that their inflation is all imported, and that they have remained refreshingly free of public debt.*

*In 1982 the tale of the Guernsey experiment was put on cassette by the Scottish Monetary Reform Society, from a recording by M. J. Browning. (See Bibliography)

CHAPTER VII

¶46 FORMATION OF THE BANK OF ENGLAND

Now it may seem odd that having hinted, some two chapters ago, about the implications of government debt, we went on to discuss the apparent advantages accruing to real or imaginary communities where there was *no public debt.* But it is hoped that the lessons of Guernsey and Salvation Island will not be lost upon the open-minded section of the readership. Orthodox monetarists will on the other hand breathe a sigh of relief as we put aside parables and the foibles of tourist island tax havens, and get back to our considerations of where the real world gets its money.

The foundations of the modern financial system were laid in 1694 when William III, Prince of Orange, granted a charter for the formation of the Bank of England. Note that this was only six years after the Bloodless Revolution of 1688, when James VII & II was driven from the British throne, and it may be that the stiff-necked Stuarts, with their sublime belief in the Divine Right of Kings, were seen as a barrier to progress by those long-sighted financiers who held the next century in the palms of their hands.

As noted in surprisingly frank replies from both the Treasury and the Prime Minister's office in 1981, the Bank was originally founded "to lend money to the Government". A private syndicate led by an astute Scot called William Paterson undertook to put up £1.2 million in gold at 8% interest, and because this must have seemed a beneficial arrangement to William III and his advisers, who had ideas currently beyond their means, the newly formed

institution was also allowed to print a note issue up to the £1.2 million in face value, so the syndicate managed to get advantage and profit from its gold twice over.

Trade flourished dramatically and soon the Bank was able to acquire new supplies of gold, which allowed it to increase its lending to the Government, whilst simultaneously increasing the note issue in response to public demand within the bounds of the larger metal reserve. Other private banking institutions were set up to exploit the market that had been created, and in those early years of the eighteenth century, whilst the Duke of Marlborough was fighting the battles of Ramillies and Malplaquet, another type of adventurer was setting out to exploit the unique qualities of British mercantile capitalism.

A great principle had been established, albeit imperfectly in practice, whilst its virtues were but poorly understood in theory. Credit, which had formerly been extended only to the holders of bullion and gold coin, was now available to the merchandiser and the man of ideas. It was cheap credit, in the form of paper notes and promises, so it was easily transported, and readily passed from hand to hand. Those early bankers, sometimes responding to the rising economic activity around them by expanding their note issues beyond the limits of their reserves, were unwittingly instrumental in monetizing the wealth of their local community, — though some of them were to pay a heavy price for their indiscretions when sudden demands for bullion caused them to close their doors in distress, thereby signifying a failure to meet their commitments.

As illustrated in our anecdote on Scottish banking, such a circumstance could cause factory closures, mass unemployment, and much unnecessary want and misery, just because men had failed to realise that wealth lay not so much in the yellow metal as in its value as a yardstick for measuring goods and services. Whole generations were to be limited in their enterprise and their productivity by the amount of gold or *specie* that was available as a base for their new-found paper currencies.

¶47 THE LENDER OF LAST RESORT

Meanwhile that particularly privileged Bank which had been

founded specifically to lend money to the Government, was immune from the crises and calamities which occasionally befell its lesser brethren. It stood ready to provide, at varying rates of interest, all the finance which the government of the day demanded, and in those early years must have been hailed as a most remarkable institution, envied and admired by Britain's foreign rivals, who would strive to emulate it as soon as they got the opportunity.

We have seen how, whenever there is machinery available to monetize the wealth that is the sum of community endeavour, the result is a great leap forward in productive and commercial activity, and a corresponding rise in living standards. Humanity in the mass is imbued with an incredible amount of energy, ingenuity and perseverance, and when this is channelled into a positive accumulation of beneficial products and services, the bounty that it generates cannot be related to any fixed norm.

Certainly the full potential of our island race in the eighteenth century could never have been realised, had it been equated to the amount of bullion or coin held by goldsmiths and silversmiths up and down the country and in the city of London. That those hundred years turned out to be an era of invention, industrial awakening, foreign trade and imperial conquest, was principally due to the emergence of an institution privileged and protected in its creation of credit, and able to bestow creditworthiness upon all sorts of ventures and enterprises which happened to have the support of the Government and the Crown. *Safe as the Bank of England!* That was an expression which would find its way into common parlance wherever traders wanted to relate to a mean of absolute dependability. In all the crises and traumas of a developing industrial nation, the Bank would become "a lender of last resort".

¶48 BEGINNINGS OF THE NATIONAL DEBT

Thus the modern system of government borrowing was established. In 1695, at the end of their first year of operation, William Paterson and his syndicate had earned themselves £96,000 in interest, and like Oliver in the parable of Salvation Island, would have no intention of asking for a return of their principal. That principal sum would rise year by year as the Government realised

how simple it had become to monetize its credibility and its assets, and with a rising national product, stimulated by the lending that was beginning to be generated from a multitude of smaller banks and institutions, there would be no criticism of the system from which so many benefits flowed, even though it must have been noticed that the Government was steadily getting itself deeper and deeper into debt. The following table, culled from various official and unofficial sources, but all agreed and verified by reputable financial records, shows the escalation of that debt, from the first bargain concluded with William Paterson and his associates up to the present day:—

Datum Year	National Debt Principal
1694	£1.2 million
1914	£700 million
1919	£7,000 million
1945	about £23,000 million
1979	£95,327 million
1981	£112,780 million

It is apparently less easy to extract the interest that has been incurred on an annual basis as the Debt progresses upwards, though the Duke of Bedford, popularly portrayed as an eccentric by the communications media, once calculated that some £1,500 million had been paid out in servicing charges during the seventy years prior to the First World War, all without any diminution of the principal. He also reckoned that in the inter-war years 1918-1939, during which the total debt figure had not varied appreciably from the £7,000 million owing when the Kaiser's war ended, a further £5,000 million had required to be raised in taxation just to honour the Government's loan commitments.

Bearing in mind that this was over a period of twenty-one years, and taking into account the vast inflation in money values, it is still insignificant in relation to more recent times, when the National Debt rose by some £72,000 million between 1945 and 1979, and by a further £17,000 million from May of 1979 till March of 1981, at which time the last-quoted figure of £112,780 million was fixed by a ministerial answer in the House of Commons.

¶49 PAYING INTEREST INTO THE THIRD MILLENNIUM

When the Duke of Bedford was doing his figures by long-division in House of Lords ante-rooms, he was working on an annual average servicing charge of about 3½%. That would still remain as the ratio of interest to capital on the older undated loans previous to 1950, when it was still possible to sell gilt-edged securities with a coupon in the low single figures. But an examination of Government funding stocks currently traded on the London Stock Exchange reveals that the bulk of the more recent borrowings have been placed at ranges between 12 and 15%. If you applied this average to the £17,453 million increase in the National Debt recorded between 1979 and 1981, you would arrive at a bill for interest charges, on this amount only, of some £2,300 million.

It has been variously stated that the total figure now involved in the annual burden of Debt financing may be conservatively placed at a minimum of £11,000 million. If we then recall the strategy contained in Chancellor Sir Geoffrey Howe's 1982 Finance Bill, whereby the Public Sector Borrowing Requirement was to be pegged at about £10,500 million, we see that nowadays, and probably for some time past, *either all or a considerable part of the PSBR has been consumed,* not in expenditure for current or future projects, not for defence or hospitals or social security for the unemployed, *but for the payment of interest on debts that may have originated with the Napoleonic Wars.*

One judges it to be a sound principle that the individual should pay his way, that the family should be responsible for its commitments, that the community should live within its means. On a national scale it might be argued with some justification that a state should plan to absorb all the debts incurred by its own generation. But no such moral or material considerations apply to the prevailing system of government and corporate funding. The generations which contested the First and Second World Wars probably felt that they had paid dearly in blood, sweat and tears for the experience. But judging by the escalating debt figures, they had not paid at all, for the money borrowed to stop the progress of Kaiser Wilhelm and Adolf Hitler

would go on incurring debt charges into the third millennium A.D.

¶50 "MONEY WE OWE TO OURSELVES"

From time to time people in authority have stated, somewhat simplistically, that the bulk of the National Debt is "money which we owe largely to ourselves". As recently as 1981, the total of £113,000 million was officially stated to be made up as follows:—

£86,000 million	. . .	Gilt-edged securities
11,000 million	. . .	National Savings
16,000 million	. . .	Tax instruments, Treasury Bills, Ways and Means Advances, etc.
£113,000 million.		

Also, in a letter from the Prime Minister's office dated November 1981, the holders of the National Debt were given in the following proportions:—

40% Banks and Insurance Companies
20% The General Public
20% Official Holdings (covering such as the banknote issue)
10% Unspecified.

A further maximum of 10% was attributed to overseas holders, from which the letter concluded that the Debt was largely internal, something which "we owe to ourselves".

Despite this comforting conclusion that we have acquired a massive debt which is owed largely to ourselves, — and presumably need not ever be repaid, — there is no doubt that the finance ministers of various British governments have given deep and serious consideration to the problems of debit-financing, and their implications for the economy and the nation. In 1945-50 Labour Chancellor Hugh Dalton, though he could never truly have believed that the monster would go away, thought to curb its appetite by reducing the interest rate to 2½%. During the heyday of the Socialist experiment there was even a school of thought which maintained that capital would ultimately become superfluous, and that those with the embarrassment of having it in safe keeping would have to pay a charge for the privilege.

From Dalton's 2½% Consols. to recent Exchequer loans at around 15% lies a wide gulf in political and economic thinking. The

new ministers who went to the British Treasury Department in May of 1979 could not possibly have been blind to the £95 billion debt that had been piled up prior to their arrival, or the £9,000 million which would be required that year for its servicing. But judging from their published policy statements, they thought to *contain* it by stringent fiscal measures, vastly reduced public expenditure, an elimination of wasteful bureaucratic procedures, and a progressive lowering of the Public Sector Borrowing Requirement in terms of the Gross National Product. One junior minister, otherwise a very sound man and a good conservative, even felt that the productive capacity of the nation would "determine its ability to repay its existing National Debt commitments in terms of interest *and also in terms of capital* if it wished to do so".

£95,000 million! Plus £9,000 million in annual interest! Plus the additional £17,453 million which somehow got tagged on to the National Debt in the first two years of Sir Geoffrey Howe's chancellorship, — years during which he was manfully struggling to *contain* the situation which he had inherited!

¶51 GOVERNMENTS WITHOUT MONEY

Friend! we have just stumbled upon the fallacy which, if not exposed and countered, is likely to endanger our whole social and economic future. You may not previously have had an opportunity to consider the consequences, the limitations and the inhibitions which have been imposed upon us all by the covert existence of that growing antediluvian monster at the Treasury. You may in fact thus far have chosen to leave finance matters to the financiers, and devoted your leisure hours to a study of the batting averages, the crew selections for next year's boat race, or a search for the next pelvis-wiggling pop star to make the Top Ten.

Now you're learning that the financiers have let you down. You shouldn't really have been so complacent in allowing them complete autonomy over an area so vital to social and economic wellbeing. Do you realise that we are coming to grips with a problem which has exacerbated productive, commercial, labour and management relations over a considerable number of years, which has distorted our thinking, and *done more to foment class revolution than all the*

anarchists and communist agitators in history?

So what's the fallacy? Well, it's all about the monetization of assets, and the proprietorship of the credit which is created whenever real wealth has been given a monetary value. Remember how in Guernsey, when the States wanted to build roads and do essential repairs to their sea walls, they realised from a simple assessment of their existing debt and revenue account that it could not be afforded on borrowed money. So they put a value on the proposed public works, and raised their own debt-free note issue to meet the cost. The Guernsey notes were acceptable to the local workmen who built the dykes and bottomed the roads, to the tradesmen who supplied them with the necessities of life and the contractors who provided the materials. They were acceptable because they were backed by the States, and the States was a credible institution on the Island of Guernsey.

When we apply the economic logic of nineteenth-century Guernsey to the affairs of an international trading nation, are we so wrong to infer that the difference is one of scale rather than principle? When a Government broker goes into the market and launches another multi-million pound tap stock at a double-figure interest coupon, the electronically computed funds which emerge to support it are only credible because they have the backing of the Bank of England. And the Bank of England is only credible because it is supported by the brains, assets and productive capacity of the nation. That must have been very obvious in the hectic days of the eighteenth and nineteenth centuries, when dozens of local and provincial banks foundered in the frequent economic crises. Such a fate was never likely to befall the Old Lady of them all. For this was the Central Bank, the Government Bank, the bank with the whole power and resolution of the nation behind it.

Even so, for nigh on three hundred years the fiction has been allowed to persist that governments have no money, and no means of obtaining such unless they are willing to borrow it at interest from an institution which is itself a creation of government.

You and I, from our peregrinations into the near-forgotten byways of history, may just have come to the independent conclusion that a government without money is a government without assets, —

and that would surely be an outrageous assumption to make in bustling, modern-day Britain, especially since it is those very tangible assets, and not the banker's credentials, which give the pound its purchasing value and the nation its prospects for the future. So do we still bow to the conventional wisdom, which stipulates that money is a commodity manufactured within the banking system, — which then has the right to sell it for the best price that the market will bear?

¶52 A FIGURE THAT KEEPS ON ESCALATING

Suppose we do knuckle down, and accept the established monetary procedures as fixed and unalterable! Suppose, having carried our message to the highest in the land, and been rewarded with a glassy stare of indifference and downright incomprehension, we take cold feet, and decide we must be getting out of our depth! Suppose we have reached the ear of a friendly Treasury minister, and managed to ask him why his government must go on paying heavy bank interest for the raising of its own credit! Suppose we get that far, and come away with one or two distinct impressions, — firstly that neither he nor any of his colleagues would ever dare to presume that a government could print its own money; secondly that the whole subject is so complex, so ringed around with international complications, so much the professional preserve of the banker and economist, that no mere politician would want to meddle! Suppose somewhere along the line we get the creepy feeling that we're bucking a vested interest, and that the smartest thing we can do is shut up and mind our own business, —what then?

Well, we're stuck with the £113,000 million and the £11,000 million of servicing charges, — and the increments that get added on year by year because there seems no way of stopping it. Cutting public expenditure, pruning the bureaucracy, and trying to finance the PSBR by selling government holdings or 2% inflation-linked gilt-edged stock for redemption in the next millennium, — that's just tinkering with the apparatus, isn't it? So long as you feel morally or procedurally obliged to go on borrowing at interest, it doesn't matter whether you borrow high or borrow low, borrow long or borrow short. You will still be borrowing at some level or other, and with £11 billion *plus* to find in servicing charges, you are unlikely to be in a

position where you can pay back any of the capital sum, so the Debt just has to go on getting higher and higher.

That's the situation we're going to consider in the next chapter, — the one where the Debt just keeps getting higher and higher, and nobody in authority is either able or willing or sufficiently motivated to do anything about it.

CHAPTER VIII

¶53 TOO MUCH MONEY CHASING TOO FEW GOODS

It occurs as a preliminary that there might be some who are feeling slightly dizzy after our sojourn amongst the multi-million pound sums involved in National Debt financing. Some harassed and economically depressed character, for instance, who is wondering where his next fiver is coming from, and couldn't care less about the National Debt! Whatever they do, they've a fat hope of expecting *him* to pay for it. Or have they?

Friend! even in your straitened circumstances, — or perhaps because of your straitened circumstances, — it might be advisable for you to stay with us, since we don't intend to continue in the high financial stratosphere. In fact before we're finished we intend to get right down to that devalued pound in your pocket, and the gazumping price of eggs, bread, butter, veg. and the tuppenny bus fare.

Inflation! The process by which prices keep on rising, and money keeps on losing its value! What causes it? What do we really know about it, — any more than we knew about money itself before we started looking beyond the tenpence pieces in the piggy bank, and the brightly coloured paper notes we collect in the weekly pay packet?

In those far-off days at the end of the Second World War, when those of us who were around at all were so much younger, and that much less sophisticated, Sir Stafford Cripps, Iron Chancellor of the Attlee Labour Government, used to tell us that inflation was *too*

much money chasing too few goods, and that the way to keep it down was to mop up the excess purchasing power by means of taxation. Cripps was seen to have a certain amount of logic in his hypothesis. The consumer market at that time had been starved of even the most commonplace necessities because of the recent war, and it was easy to accept that in a period of scarcity the price of desirable commodities would rise beyond their normal market value. So we all denied ourselves for a little bit longer, put the surplus purchasing power into savings, and reckoned it would buy more when things returned to normal.

¶54 THE INFLATION PSYCHOSIS

But things never did get back to normal, did they? The scarcities disappeared, — moved into surplus in fact, — but prices just went on rising. Then there were new factors to blame for the continuing inflation. Profiteering private industry! Rapacious middlemen! Low productivity and restrictive practices! Dominant trade unions forcing through unjustified wage claims! The whole country paying itself more than the economy could afford!

It's called the inflationary cycle. A variation of the chicken-and-the-egg syndrome! The price of bread goes up because the bakers' wages go up. The bakers' wages go up because their wives have to pay more for milk and eggs and the clothes the kiddies need for the next school session. The manufacturers in the rag trade, who make the kiddies' clothes, have had to adjust their factory gate prices to meet the increased overheads in rent and rates, gas and electricity, — not to mention the latest wage settlement, — and the price of electricity just keeps going up and up and up because the boards have to go on paying more and more for their pithead coal. As for the miners, well . . .

There is now an inflation psychosis. Many trade union office bearers and salaried staff representatives must be almost permanently engaged in the planning or negotiation of higher and higher wage rates. Even if the economy stabilised they would be unable to face up to the reality of that stability, but would go on agitating for more and more on the basis that they had never been led to expect anything else. Company accountants add an annual percentage to their

budgets. So do the treasurers of local authorities and nationalised utility corporations. The self-employed entrepreneur reckons that he needs about ten or twelve per cent growth every year just to keep standing still. Schoolteachers, college professors, doctors, dentists, nurses and all manner of professional and technical personnel try year by year to find the settlement norm, then aim for a few points higher.

¶55 PEOPLE WHO GAIN FROM THE PRICE SPIRAL?

It's like being on a treadmill or a whirligig, isn't it? Ever any hope of climbing off? Many people, watching the spiral, and realising that they are acting like the puppy that chases its own tail, have fervently wished for the imposition of some paramount authority which would call a halt to the whole crazy business. "Let's stop it now," they will argue. "Let's all do without our year-on-year increases. Let's even be prepared to accept less in money terms, if it means that prices will then start to come down."

Brave words! So often uttered privately and despairingly! But would it really work? If enough people organised themselves into *not demanding more*, and then insisted on *not paying more*, would the trend of costs and prices start moving downwards, — or at least sideways? If every adverse factor which has been cited as an inflationary influence was turned around in our favour, would we actually get rid of the beast which devours our savings, erodes our living standards, and threatens the provisions that we have made for our retirement?

Before trying to answer that particular question, let's consider another one. Let's be sure in our minds that when we try to combat inflation, we have the wholehearted support of every wrinkle and facet of society. Is there for instance some power grouping, some vested interest which, whilst paying lip service to the general consensus, exerts its influence in a contrary direction? In other words, are there people who make a profit out of inflation, — just as there are people who make profit out of the drug traffic, — and who would contrive to keep it going, even in spite of the wishes of the vast majority?

¶56 DEVALUING THE PENCE IN YOUR POCKET

The most resolute anti-inflation policy of any British government in recent years was of course that instituted by the Thatcher administration in 1979. The attacks upon direct taxation, swollen bureaucracy, burgeoning public expenditure, overmanning in industry, unproductive wage increases and the restrictiveness of closed shop trade unionism, were all dedicated towards the achievement of a more efficient, more competitive economy through which we might enter a period of inflation-free growth. Ironically enough, some of the methods used for the combatting of inflation were themselves highly inflationary. In his first budget Chancellor Sir Geoffrey Howe increased the Minimum Lending Rate, raised the petrol tax and gazumped V.A.T. from 8% to 15%. Each one of these imposts had an adverse effect upon the cost of living, — and as we all know from bitter experience, once a price has gone up, it is almost impossible to get it down again.

When the official year-on-year inflation rate, which had started in May 1979 at 10%, jumped to nearly 20% in 1980, and then got back into single figures in the summer of 1982, it did not mean that prices were tending to get back to where they had been three years earlier.It meant in fact that the standard item in the cost-of-living index which could be purchased at 50p in 1978, would cost 55p in 1979, 66p in 1980, 76p in 1981,and 83p the following year as the inflation rate dropped into single figures.

Impressive, isn't it? Your 50 pence High Street purchase of 1978 had gone up by a massive 66% in four years, — and that during a period when the government of the day was working all out to control and reduce inflation. Note that we said *reduce,* not *stamp out* or *eradicate!* For to do them justice, the Government ministers who were actively committed to the anti-inflation policy did not truly wish to mislead the electorate. So they talked about *lowering* inflation, bringing it down to an acceptable level, aiming at a commercial and industrial environment in which our costs would rise *more slowly* than those of our competitors.

¶57 GROWTH VERSUS CONTINUED GOVERNMENT BORROWING

But why, in their honesty and sincerity, were they not able to talk about stopping inflation, bringing it down to *zero?* Why were they not able to hold that up as a goal to be pursued, even if it could not be totally achieved?

Friend! I'll tell you. I'm waiting to tell you. I'm simply gasping to tell you. It's got much to do with those astronomical figures we quoted in the last chapter concerning the National Debt. Remember how it had been standing at about £95,000 million when the Thatcher Government came to power. During the Tories' monetarist anti-inflation policy it had risen by about another £17,000 million in the next two years, by which time, as you may recall, the Chancellor was expected to find upwards of £11,000 million just to pay the interest.

Then what is the other interesting statistic which we should consider within this context? Surely the figure for Chancellor Howe's 1982 borrowing requirement, which he aimed at £10,500 million, just £500 million short of the annual servicing charges! Under the continuing anti-inflation policy, future PSBR's would move progressively lower, particularly in terms of the projected G.N.P., but no one was daring to forecast that the requirement would vanish entirely. *Under compulsion to pay the interest on the National Debt, the Treasury was equally under compulsion to go on borrowing.* So as it went on borrowing, the principal of the Debt and the interest accruing would go on rising, —just like the Standard Price Index.

Suppose therefore that we were to get our productivity, our raw material inputs, our management-labour relations and our individual expectations into such a state of harmony that wages, rates and taxes did not rise at all. Would that result in zero price inflation? It might! but only if the economy had achieved a growth rate commensurate with the extra sums that were having to be found for National Debt financing. Any shortfall would have to be made good out of extra taxation and reduced living standards.

¶58 THE TRUE CAUSE OF PRIMARY INFLATION

Bravely Government ministers talk from time to time of aiming

at a situation where *all* public spending is financed out of taxation. We've had guilty consciences about this in the past, haven't we? Generation that's living beyond its means! Taking more out of the economy than it ever puts in! Paying itself more than it earns! Piling up debts in the future to make up for the deficiencies of the present!

It's not true, is it? not when you rationalise the statistics which we have been bandying about in these last two chapters! Existing taxation already provides for defence, administration, the social services, health, unemployment, regional development and a hundred-and-one other items of state spending. Yes! yes! it's a fact. These expenditures are fully covered by the harvest garnered through the Inland Revenue. Despite many harangues and indictments to the contrary, this generation is well and truly paying its way as it goes along.

The only bill which it does not manage to meet on an ongoing basis is the annual account for interest on the National Debt. If you make a comparison of the current figures, you will see that it is effectively this impost which has to be budgetted year by year through the Public Sector Borrowing Requirement, and it is of course *that* in itself which ensures that the Debt will go on rising.

A real egg-and-the-chicken-and-the-egg situation, if ever there was! Because a government several hundred years ago started borrowing money at interest from the banking system, and because the procedure has continued ever since, the country now has a horrific National Debt; because the servicing of that Debt is only made possible through further extensive borrowings, a proportion of these borrowings is virtually irredeemable, and ensures that on an annual basis the debt charges must rise higher and higher; because the debt charges rise higher and higher, they will ultimately consume the entire Gross National Product, *unless money is devalued at a rate commensurate with the increase in interest payments;* and because of this need for continuous currency depreciation, we have an inbuilt inflation which must be held in check through wage and price freezes, credit squeezes, recessions, depressions, and manipulations of the cost-of-living index.

It is therefore true to say that though there may be many causes of *secondary* inflation, there is only one cause of *primary* inflation,

and all the others stem from that in some degree or other. That is the single most important fact of your economic existence in this hard-pressed money-conscious society of ours, — yet it may not have been brought to your notice till you chanced to read through this volume.

¶59 CLOBBERING THE TRADERS IN THE MARKET PLACE

O.K. We've had our fling with the millions and the billions. We promised ultimately to get down to the loaves of bread, the pounds of butter, the tenpence bus fares and all the other little sundry items which dissipate the working man's modest wage packet. The first item we have to examine in this context is the rate of interest charged on borrowed money. This can normally be expected to run a few per cent ahead of the inflation index, for the simple reason that people with money to lend will not consider it an attractive investment unless they can get a *real* return on their capital, and for them that can mean Inflation Rate plus a minimum of 2%.

Most of the traders who sell you your necessities over the counter are caught up in the *dear money* syndrome. Even if they're prudent and successful enough to avoid paying overdraft interest themselves, they buy from suppliers who are either incurring heavy loan charges on their stocks, or factoring their invoices through a finance company. Both retailers and wholesalers are also at the mercy of local government authorities which, as we shall see later, are paying out about two-fifths of their rates income on debt interest, and trying to recoup their exchequers by fleecing the commercial and industrial ratepayer. Add on the remorseless, repetitive and totally inescapable increases levied by the state monopolies such as gas, telephones and electricity, — and when you look across that counter at your local newsagent, haberdasher or supermarket manager, you're looking at a man who just has to screw an additional ten to fifteen per cent out of the public every year if he's going to stay in business.

So the battle to rake in the escalating interest on the National Debt begins right down in the shopping precinct, where you spend your weekly budget, work out the erosion on your living standards,

and decide on the level of your next wage demand. *You* also would like things to stand still for a bit, wouldn't you? You're not really an ideological union militant or a rapacious wage-grabber. You'd willingly go along with any proposal that made for stability, if only they stopped those prices going up and up in the shops. Maybe you're old enough to remember when you could get a packet of ten cigarettes for four old pence, and a pint of beer cost less than a shilling.

But that was in the days when the Debt was a modest £7 billion, and the annual interest ran at about 3½%. An economist has calculated that whereas prices rose twelve times between 1300 A.D. and 1935, from 1935 till 1981 they had gone up a further twenty-five times. See any relationship between the escalation of the Debt and the rate of depreciation of our currency? The monster has to become more voracious with every year that passes, and the bigger he grows, the more he takes of our substance.

¶60 THE MONOPOLY MONEY OF THE FUTURE

It has often been claimed that many of our inflationary worries stem from the decimalisation of the pound in 1971. That was not so much a cause as a pretext. Those who from time to time take charge of our financial affairs must soon appreciate that, whatever they might say in their public utterances, ***they are under an absolute compulsion to keep the volume of money expanding.*** Like all other debtors the world over, they are grateful for an opportunity to pay off their dues in a steadily depreciating medium.

And whatever politicians might promise, the System itself is well attuned to the consequences of its own inevitability. In June of 1982 the Royal Mint issued the first of its twenty-pence coins, miserable little seven-sided pieces of alloy weighing less than the old shilling. It was a supreme gesture of contempt for tradition, and the vanished stability of the pound sterling. It was also a preview into the *monopoly* money of the future, and a moving scale of values which would disorientate us from our past.

Was there any way in which it could be stopped?

CHAPTER IX

¶61 VANISHING PROFITS AT THE E.G.B.

They appear to be a rapacious bunch, those who do the accounting these days at the electricity supply industry. Note with what consternation and alarm we view the bills that keep popping through our letter boxes, particularly after the winter cold spells. Insulated from competition, cosy in its privileged position as the service which modern society is unwilling or unable to do without, the E.G.B. and its regional supply networks present the consumer with the stark choice between meeting their terms and living by candlelight.

In the circumstances it should not be surprising to find that the boards make a profit. So in fact they do — quite handsome profits at times. A recent statement from one of the regional boards announced that for the year 1981-82 it had achieved an operating surplus of £105 million out of a total revenue of £716 million, which indicates a return of just under 15%. But before the finance director felt free to tack that odd hundred million profit on to the assets side of the balance sheet, there was one item of expenditure that had to be met and accounted for. Interest! Interest on borrowed capital! No less than 12% of the total earnings! A whopping £88 million, out of the total profit of £105 million, leaving a meagre £17 million to be carried forward for reducing borrowings and minimising costs in

future years!

There are no prizes for diagnosing how that particular supply board's finances got into such a mess. When base lending rates have been pushed up to 16% as an act of policy, and even the cosiest of nationalised monopolies has to get its funds from the money market, finance directors don't even bother to apologise for the distortions that appear in their accounts, or the fact that mind-boggling sums which might otherwise have gone to benefit the consumer get siphoned off and disappear.

¶62 IDENTIFYING THE BLACK ECONOMY

But we're beginning to appreciate, aren't we, that there are an infinite number of distortions and anomalies that have crept into our social and economic life due to the perpetuation of the debt psychosis? What for instance of that modern phenomenon which journalists and commentators have come to describe as "the black economy"? You know the drill. The outside of your house needs painting, and you have neither the time nor the inclination to tackle it yourself. Neither do you feel you are sufficiently flush to employ the local contractor, who has to pay union rates, overtime, holiday stamps and an insurance surcharge, besides making an allowance for administration and profit.

So you strike a bargain with a couple of jokesters who buy a gallon or two of paint from the hardware store, slap a coat of magnolia gloss over the existing speckled white, call at the back door for their money, and disappear off into the gloaming.

Alternatively it might be a new bathroom suite or a heating system installed by a technically-minded *pal* who just knows where to get the fittings and fixtures cheaply, and who also takes his remuneration in cash, with no questions asked or answered. And have you ever sold your second-hand car to a flashy little guy who operates from a callbox telephone number, and pays for the deal in well-worn ten-pound notes?

Window cleaners! Jobbing gardeners! Purveyors of odd necessities which appear at your door without argument or difficulty, and which are yours for a knockdown price, provided there is an instant settlement in cash! Little men, tall men, young men, old men! Many

providing a useful and an obliging service, but all insistent upon their attentions being treated "casually", without written or visible record!

That is *the black economy,* — a vast reservoir of skills, talent and expertise which stands ready to be engaged by those who will meet its terms, and which has been cautiously estimated to account for at least £4,000 million of the Gross National Product that never finds its way into the official statistics. There is nothing illegal about hiring an odd-job man and paying him cash for his services. The illegality begins when the bloke conceals his earnings from the taxman, and when, — as is often the case, — he's already getting paid by the social security department.

Many thousands of skilled, semi-skilled and resourcefully adaptable working men manage to make a regular living outwith the regular tax-paying and insurance-surcharged economy. Some are on the fringes of the underworld, trafficking in stolen goods, or moving in and out of active criminal activity. Others may be exploiting the welfare system, and get their kicks from dodging the Social Security investigators. But there are also a considerable number of honest-to-goodness independent individuals always willing to give a decent day's work provided no one shows them a P.A.Y.E. card or quotes them conditions of employment. Welfare two-timers included, collectively they make a nonsense of the official unemployment figures, and explain why, even in so-called depressed areas, labour-intensive projects have occasionally been held back by a dearth of applicants.

¶63 TAX CREDIT AND THE POVERTY TRAP

We are generally expected to deplore the black economy as a blight and an abomination upon the community at large. When assessments are taken of its possible turnover, and computations are done to show the projected cost to the Exchequer in lost revenue, it is fashionable to count how much less the rest of us might pay in income tax if the Chancellor was able to claim his legal percentage of the undeclared earnings. On that basis one might even become highly indignant at this type of unprincipled citizen who is apparently cheating his own countrymen by opting out of the fiscal and financial system which regulates the rest of us.

But let's not descend into fuddled and emotive thinking on the subject. Can we be sure that all those earnings would in fact be aggregated if they were monitored and surcharged by the Department of Employment and the Inland Revenue? Would the window cleaner continue to clean your windows for a pound if he had to buy insurance stamps and pay tax out of the proceeds? And if he jumped his prices by the odd forty per cent that would be necessary at current rates to protect his net income, would you still want to employ him?

So what we should be asking ourselves at this stage is why so many reasonably competent and industrious characters prefer to function outwith the legitimate economy. In any society the broad mass of the people tend to think and act in what they see as their own self-interest. If, therefore, it makes sense for the window cleaner, the jobbing gardener and the building site labourer to take their earnings on a casual basis and stay well clear of the employment register, then it may be that we should be looking for anomalies and injustices in the system before deploring a general deterioration in moral standards.

A great deal has been spoken and written about "the poverty trap", which is basically a situation at the lower end of the earnings scale, where a man in work, paying all the heavy deductions for tax and insurance, can often find himself less well off than his neighbour on social security. In *The Lemming Folk* (p. 140) we tried to revive Chancellor Anthony Barber's discarded tax-credit scheme of 1974, under which the fully employed but meagrely paid might conceivably get a "negative" assessment from the Revenue, and thereby qualify for a state supplement. That would automatically have attracted a whole army of spivs, tax-dodgers and itinerant casual labourers on to the official register as they saw the opportunity of a clawback whenever their earnings fell below the accepted norm. No doubt the authorities examined the pitfalls in such a system, but would it in fact have been open to more abuse than that universal provider, social security?

¶64 ELUDING THE INLAND REVENUE

Taxation! That is the main clue to the duplicity, the covert approaches, the casual effrontery and the occasional sleaziness of the black economy. Taxation which on all classes and at all levels is

increasingly seen to be onerous and unremitting! *Casuals, moonlighters* and welfare tricksters are all well-known at the lower end of the social scale. They may get most of the publicity. Yet there are other ways of cheating the Inland Revenue than the filing of a phony claim for state assistance.

The builder who does some constructional work for the local garage, and decides to take a new car for his wife instead of rendering the bill, not only conceals part of his business profits, but also manages to avoid the V.A.T. on his purchase. Likewise many forms of contra-account and inter-company trading, where they result in mutual cancellation of non-chargeable expenditures, are as much an evasion of the tax system as the moonlighting of craft operatives or the tips that a waiter omits to record on his assessment form.

Here the ordinary wage-earning or salaried employee, taxed on every penny of his gross entitlement, might also be inclined to cry 'Foul play!' as he ruminates on the hypothetical reductions in his own assessment if all those business dodges and fiddles could be gathered into the taxman's net.

¶65 TAXING THE NATURAL RESOURCES

But what shall we say in this context about the cooperatives which, under pressure of inflation, have begun to appear in various parts of the country? These are essentially associations of artisans and professional people which have been brought into existence by the escalation in service charges, and the fact so many facilities have now been priced out of reach of the ordinary wage-earner. All members pool their skills, qualifications and expertise, and undertake, on a spare-time basis, to make them available on request for the benefit of other members. Control is generally exercised by a managerial secretary, who keeps a record of the various skills and abilities at the association's disposal, besides booking up the credits and debits as the members give one another the benefit of their advice or their labours. The theory is that over a given period the accounts should be kept in balance, so that no money changes hands, and no tax is calculable.

Is this another aspect of the black economy? In our hard-pressed and overtaxed society can we afford to smile benignly on those

ingenious cooperatives, — or should we not rather be blackguarding them for having created another area in which people can effectively earn income and swop it for goods and services without paying income tax on one hand and V.A.T. on the other? What is the Chancellor of the Exchequer saying about it? Not much at the moment! But it has been hinted that if these cooperatives catch on, if they develop to the stage where a substantial section of the population is widening its enjoyment of the amenities of life on a mutual help basis, — thereby creating for themselves a benefit which cannot be taxed, — the whole principle might be challenged in the courts.

But why? Why must the Inland Revenue be cast as the wicked ogre, jealous that any form of earnings should escape the net? Why should successive Chancellors of the Exchequer degenerate into glorified tax-collectors, for ever dreaming up new and surreptitious ways of siphoning off our income, — seldom giving a concession with one hand unless they can take it back with the other? It wasn't meant to be that way. The finance ministry was meant to attract politicians of imagination and vision, men with a burning desire to improve the lot of their countrymen by means of radical and even daring fiscal innovations which would put a premium on merit and industry, and regulate the whole economy for the maximisation of wealth.

Who is to say, indeed, that Sir Geoffrey Howe, the incumbent at this moment of writing, did not go to the Treasury with such public-spirited ambitions glowing within him? After all, Margaret Thatcher was destined to be the prime minister who would reverse Britain's moral and spiritual decline. Why should not her chancellor be the inspiration of a new economic miracle? Much lower direct taxation! Incentives for the creators and the wealth producers! Freedom for the entrepreneur and the investor who would risk their organisations and their capital in the new technological ventures which would take the country into the twenty-first century!

That was how the nation saw it happening. That was how the nation wanted it to happen. So why did Sir Geoffrey not deliver? Why did his first venture in lower direct taxation have to be balanced by a swingeing increase in the rate of V.A.T.? Why did he have to go

slapping lumps of duty on to petrol, till it was finally selling at £1.70 per gallon at the pumps? Why was it that natural gas, the only form of energy in which, thanks to the North Sea, we should have had a price advantage over our European competitors, was scheduled to double in cost to both the domestic and the industrial consumer during Sir Geoffrey's period of office?

¶66 THE DINOSAUR IN THE BASEMENT

Cost accountants, factory managers, bosses of nationalised and private sector industry would quickly get the message. Despite what was avowedly the most resolute counter-inflation policy of post-war years, nothing that moved on wheels, or down the conveyor lines of factory processes, was ever going to be allowed to get any cheaper. And if any essential commodity did tend to reduce in price through some accident of over supply or reduced demand, — as did the retail cost of motor spirit in the early spring of 1982, — then the Inland Revenue was standing ready to claw it all back again in the form of increased petroleum duty.

Taxation and inflation! Did anyone really believe that they were going to curtail inflation with interest rates at 17%, and clobbering taxes on the energy fuels which were the life-blood of industry? Surely not! So why was the intent so cruelly contradicted in the event? When did those bright hopes of reduced taxes and negative inflation fade from the horizon? Could it have been when Sir Geoffrey and his fellow finance ministers got to the Treasury and saw the size of the dinosaur they were harbouring in the basement?

Not much hope then that prices would stabilise and currency values appreciate, — not when the feed-bills for the monster were destined to go on rising year by year!

Not really much scope for reduced taxation, with £11,000 million of our national income currently consumed in interest charges, — and no saying what it might eventually get to in the future! Frustrating, debilitating and divisive, that decision taken so long ago, when a central bank was formed "to lend money to the Government"! How many more distortions and anomalies would we find in our social and economic life as the ramifications and the consequences unfolded?

CHAPTER X

¶67 THE FOUR PRINCIPLES OF BISHOP BERKELEY

In 1710 a church dignitary called Bishop Berkeley was purported to have asked the following questions about money:—

(1) Whether the four elements, and man's labour therein, be not the true source of wealth?

(2) Whether money is only useful in so far as it stirreth people to industry, enabling men to participate in each other's industry and the fruits of their labour?

(3) Whether any other means conducive to exciting the industry of mankind may not be equally useful?

(4) Whether the true idea of money, as such, be not altogether that of a ticket or token?

That was good Christian economics, wasn't it? reminding us that life is all about living, and that God's bounty is placed upon this earth so that all may share it in proportion to their industry! More or less what we have been trying to say at various points in this volume, — though obviously the bishop said it first!

It is now more than two hundred and seventy years since Berkeley penned his words of wisdom, and down through the centuries so little notice has been taken that today we are still trained and programmed into treating money as some scarce and privileged commodity which is disgorged reluctantly, at interest, from the

banking system, disappearing back whence it came in moments of crisis and greatest need. Does it not make you very angry that a nation which has given the world so much of its civilising and technological genius, which is already astride the microchip revolution, and possessed of the brains, energy and enterprise to take us into an exciting new future, should be harnessed to a dinosaur in its Treasury department, — a monster which, amongst other things, inhibits and dissuades us from monetizing the potential wealth of a mature and gifted people?

¶68 BENJAMIN FRANKLIN AND COLONIAL SCRIP

As mentioned in *The Lemming Folk*, when the famous Benjamin Franklin visited London on his return from the Treaty of Paris in 1763, he was asked to explain the phenomenal prosperity which the American colonies were enjoying at that time. Franklin's answer was that the American settlements were prosperous because they were able to issue their own colonial money, which they did *"in proper proportion to the demands of trade and industry"*.

Subsequent to this, a bill was introduced into the British House of Commons which made it illegal for any colony to issue its own money. The Americans were forced to call in their "colonial scrip" and have it substituted by Treasury notes at the Bank of England, but so poor was the rate of exchange that, according to Franklin, within a year the towns on the Atlantic seaboard were filled with the unemployed, — and this, in his opinion, was the original cause of the Wars of Independence which started a decade later.

We should not let that anecdote get away from us, you and I, — not whilst we've got it right here in our hands. What we're learning is that until about 1763 the New England colonists, by periodic issues of their colonial scrip, were able to *monetize* all the wealth they were creating for themselves in their thrusting new environment. As a result they enjoyed an unparalleled prosperity which became the envy of the older nations of Europe. When the bankers saw that a vast new continent was in process of development entirely outwith their sphere of influence, they prevailed upon the British Parliament to enact a law under which no British colony would in future be able to issue its own money.

We know what happened to the New Englanders after that, don't we? After seven or eight years of bitter and fratricidal war, they wrested control of their fledgeling state away from the Mother Country, and went on to create the world's greatest republic. Thenceforth generations of schoolboys would learn that it all started with a tax on tea, and a bunch of irate Bostonians who boarded an English cutter and threw its cargo of teaboxes into Boston Harbour. But Benjamin Franklin seems to have decided differently, — and it would appear that he was closer to the action than the people who compiled the history books.

¶69 SCOTLAND AND GUERNSEY

In eighteenth century Scotland the Scottish bankers were quick to spread their credit facilities into the remotest corners of the land. The result was that trade and commerce expanded, and according to Henry Meulen, author of *Free Banking*, "under the double influence of her banking and educational systems, Scotland sprang from her barbarous state to the position of being the most prosperous country in Europe".

What destroyed that prosperity? More ill-advised legislation in the British Parliament, this time to outlaw *the option clause*, so that the banks were obliged to turn over their gold reserves to speculators who were able to flood them with quantities of their own note issues! Promise to pay the bearer *on demand!* It was implementation of that simple commitment which caused those proudly cautious Scottish bankers to call in their loans, shut down factories and commercial houses, and put thousands of their countrymen out of work. They were not to be blamed. They had conformed to the prevailing financial wisdom, under which gold and silver bullion were the only acceptable backing for sound money, and they would not have dreamt of extending credit or promoting a note issue which could not be adequately supported by metal reserves.

Yet we know in retrospect that when they were forced into that position, they were failing the nation. They were failing to *monetize* the potential wealth of the communities which they claimed to serve.

By contrast the States of nineteenth century Guernsey had no gold or silver under their direct command. But they had hands and

brains and skills available for employment. They also had a need. They needed repairs to their ancient church. They needed roads and a covered market, and coastal dykes with which to protect fertile lands from the sea. *Without* the orthodox bullion backing, — and greatly daring, — they monetized the wealth of natural and human resources that lay under their own jurisdiction, and provided an economic environment in which their island could prosper far beyond their dreams.

¶70 SEEING SELF-HELP AS A VIRTUE

Those cooperatives which were mentioned in a previous chapter, — associations of artisans and professional people formed expressly to avoid some of the more punitive aspects of the taxation system, — how would you react if they were indeed brought before the law courts, forced to disclose their records to the Inland Revenue, made to pay income tax and V.A.T. on all their earnings and accrued benefits? Would you offer up a hearty sigh of satisfaction that they had not been allowed to get away with it? On the basis that one man's tax evasion is the next man's higher assessment!

Or should you not rather look beyond the distortions and the anomalies of our debt-ridden financial structure and realise that those self-help groups, with the pooling of their skills and expertise, were in fact acting out the principles enunciated by Bishop Berkeley? With no more resources than their own weekly pay packets or monthly salary cheques, plus an initial outlay on the secretary's accounts book and the inevitable telephone calls, they were monetizing the impulse "that stirreth people to industry".

¶71 LOCAL EXPENDITURE CUTS

The public expenditure cuts embodied in the Thatcher Government's counter-inflation policy of the nineteen-eighties had evoked fierce reaction from some of the 62 county and regional authorities formed by the reorganisation of local government in 1974. These larger administrative groupings, sometimes including half-a-dozen or more of the old historical county and city councils, had been endowed with their own finance and planning departments, and were not long in developing their own considerable bureaucracies.

The traditional method of raising money for local expenditure has been through the rates levy, though latterly more than sixty per cent of local authority budgets had been provided by the central government in the form of rate support grant. It was progressive reductions in the level of this grant which outraged county and city hall treasurers accustomed to the inevitable rise of both expenditure and income. Government ministers were accused of unbelievable callousness and insensitivity as they squeezed local authority spending programmes under threat that the non-conforming would have their grants reduced still further. Council conveners protested that the targets could only be met by drastic curtailment of public services, and ministers were content to call their bluff on this one, since much of the chronic over-spending had gone on duplicate staffing, unaccountability and a general tendency to regard the bureaucracy as more important than the function it was there to perform. It seemed to them that much of the agonising would take place within the council chambers, without the public noticing a great deal of difference.

It was a tense and wordy confrontation, often staged between exponents of the two main rival ideologies, with Labour and leftist-controlled authorities arguing for an extension of municipal ownership and service-contracting, whilst those of the opposite political persuasion were proposing to *privatise* everything from repairs and maintenance to the provision of fresh linen in county hospitals.

¶72 CAPITALISM'S ACHILLES' HEEL

All a matter of finance! All hotly contested and widely publicised, — *except, that is, for the single most important factor in local authority budgetting,* — which is the question of municipal debt. You may not previously have had occasion to look at local authority debt structures, but the record shows that for many years past, county and city hall finance directors have been mighty operators in the money markets, with the result that the balance sheets of almost all regional, county and district administrations are distorted by the payment of loan interest, — which may in some cases have been incurred for capital projects that are no longer extant.

So what is the effect of this vast accumulation of interest-bearing debt, which may range from £300 to £900 per head of population, and must aggregate something approaching £50,000 million for the entire United Kingdom? Simply this, that for every pound of rates revenue collected by county and regional treasurers, approximately 40p disappears into the banking system as interest upon historic and short term loans!

Got that? Two-fifths of the money screwed out of domestic, commercial and industrial ratepayers takes no part in the provision of services, libraries, old people's rest homes, community youth centres, public parks, subsidised urban transport or any of the other desirable amenities your local councillor holds in such high regard. The swingeing rates increases of 1980, 1981 and 1982 which closed down many a High Street store and savaged the already emaciated profits of private industry, — thereby discouraging future starts and expansions, and harming employment prospects, — might not have been necessary had the will or the means existed to do something about the ravenous little monster which every city hall treasurer was harbouring in his office cupboard.

Over the years local government has seen the emergence of many socialist, communist and even anarchical characters who have made no secret of their opposition to the traditions and established norms of our liberal democratic society. Especially have they shown their utter detestation of capitalism, free enterprise, private ownership of commerce and industry, — all of which, come the Revolution, they would intend to abolish entirely. Yet in their many tirades upon the iniquities of the capitalist system, though they have fumed and frothed against property and the profit motive, how often have they gone on record upon the oppressive social consequences of the debt structure, —surely the one feature of our existing economic and financial machine which invites universal criticism?

The radical Ken Livingstone, for instance, of Greater London Council, where total borough and area authority debt was listed in 1980 at about £6,745 million. The interest payments on that lot, suitably recycled, would presumably have funded many a syndicalist or collectivist scheme dear to Mr Livingstone's heart. So how can *he* and his ideological comrades be persuaded to join the conspiracy of

silence under which all official discussion of this grievous distortion in municipal finances is totally suppressed, and its implications blandly ignored? Can it be that they do not know the main compulsion towards continuous local authority borrowing is to pay the interest upon previous borrowings, and that against this monstrous anomaly and injustice other factors pale into insignificance? Or might they not be only too well aware that this is capitalism's Achilles' heel, which they will strive to pierce and penetrate in their own good time?

Conservatives and all manner of moderate-minded folks who read this, — and who have thus far side-stepped any criticisms of current financial protocol, — should take time off to reflect that there might be some truth in that latter suggestion. When Trotskyists, Maoists and fanatical left-wing socialists of the Militant Tendency work and hope and conspire for class revolution and a total overthrow of existing society, it is complacent to assume that there could never be a set of circumstances under which they might achieve their feverish ambitions. But they will find it that much more simple to topple us if we are floundering and slithering and stumbling under an accumulating burden of debt.

¶73 THE RATES VOUCHER SCHEME

Local authorities are not without resources. They have considerable prestige and credibility and buying power within their own communities. They have patronage and skilled staffs and experienced contractors only too willing to do their bidding. So how to capitalise on these considerable resources without going more deeply in hock to their bankers? How to take advantage of the factors that lie within their own control, and in a fashion which might stimulate local activity?

In the nineteen-fifties Mr. Peter Cahill, subsequently secretary of the Scottish Monetary Reform Society, suggested that these beneficial effects might be obtained through a system of rates vouchers, which could be spent into circulation by a council in course of its routine local expenditures, and redeemed for payment of rates at the end of the fiscal year. It was visualised that if such a scheme could be adopted on a large enough scale, and if it gained the backing

and cooperation of its own ratepaying public, it might ultimately relieve treasurers of the compulsion to go into the short-term money market, since the vouchers would be traded from hand to hand like a sort of local currency which would become popular as citizens appreciated that it was holding down both their rates and their municipal debt.

Mr. Cahill and his colleagues targeted their proposals upon the old Glasgow Corporation, which at that time had a rates revenue of £21.5 million, — and an annual commitment on debt interest of about £9.5 million, — which meant that no less than 44% of the ratepayer's money was going on the servicing of historic and short-term loans. Obviously Glasgow's Socialist-controlled administration of that day, with their reputation for ideological dogmatism and civic extravagance, required some kind of inspirational urge to stir them out of their torpor, but unlike the States of nineteenth-century Guernsey, they were not to be *roused into action by the urgency of great occasions,* and the reformers' proposal for monetizing the assets and credibility of their own community were never put to the test.

But might it be that in the new economic climate of the nineteen-eighties, with the realities of municipal debt being better understood even as their consequences become more debilitating, someone somewhere will find both the will and the means to implement the principles of Bishop Berkeley, wherein he saw that money must never be allowed to dominate the affairs of mankind to the exclusion of those things which have intrinsic value? The banknote issues of nineteenth-century Guernsey! The self-help projects of the professional-artisan cooperatives! The rates voucher scheme of Mr. Peter Cahill! They all have a common virtue, in that they relieve both the corporate authority and the individual from the costs and the artificial pressures of a monetary exchange system which can only be extended on a basis of increased borrowing and higher loan charges.

CHAPTER XI

¶74 A CHOICE BETWEEN HOSPITALS AND ARMAMENTS?

In any period of severe credit restrictions there are invariably people who complain that whereas there never seems to be enough money for building, staffing and equipping hospitals, it's a different matter when it comes to buying armaments and waging war. Bearing in mind that those diverse activities involve a vastly different range of technical skills and supporting infrastructure, the point has to be looked at. Cancellation of an order for a new range of frigates, against which keels have already been laid, and design and work forces committed, would not necessarily provide consultants, surgeons, medical research scientists, doctors and nurses to staff an equivalent number of hospitals.

Given that both might be regarded as desirable, the hospitals for the sick of the nation, and the frigates for our security in a dangerous world, — given also that material and physical resources are available for the fulfilment of our needs in both respects, — then should we not be looking hard and critically at a financial system which forces us to choose?

Modern war is a vastly expensive business. The most horrifying surges in the National Debt occurred firstly between 1914 and 1919, and latterly during the Hitler War of 1939-45. But it could surely be argued that those 1914 and 1939 generations had already paid for their wars in blood, sweat, tears and squandered treasure. Why

should the nation go on paying for them into eternity, as seems to be happening today?

¶75 THE MONEY BOMB AND THE LAND FIT FOR HEROES

At the Armistice in 1918, after four years of horror and desecration in the mud of Flanders, there was a pressing desire, in the hearts and minds of a victorious if sorrowing people, "to build a land fit for heroes". They could not bring back those who had perished, but a grateful nation would see to it that those who survived would return to a much better life than they had known before.

Many earnest, sincere and compassionate citizens thenceforth dedicated considerable portions of their lives and personal fortunes to that desirable end. The hospitals for war-disabled ex-servicemen seldom lacked for caring hands and generous donors to look after those who would no longer be fit for a normal existence. But what was to happen in the community at large, — to the hundreds of thousands of fighting men who emerged physically unscathed, and returned to seek that better life which had been so eagerly promised?

The promise turned sour, didn't it? The survivors of Loos and Vimy Ridge and the Ypres Salient were the same who joined the dole queues some ten to fifteen years later, when the financial system which had coped so smoothly with the funding of the war effort crumpled at the prospect of productive plenty in an atmosphere of continuing peace.

What had gone wrong? The eternal shortage of money of course! In the 1929 stock market crash the Western World's credit had collapsed like a pricked balloon, and liquidity was vanishing from American and European economies like that exotic legendary bird which makes a habit of disappearing up its own rear quarters.

The need was there. The materials and the resources were there. *But we had no money.* So the factories and the workshops closed, their workforces went idle, and a hundred thousand humble homes went short of the necessities which their own breadwinners, suitably employed, would have been fit and able to manufacture and provide. As we get closer to the crux of this astonishing story, you may wonder why the facts have been concealed and obfuscated for so long. The

only thing which that 1914 generation had not been able to do, was to turn off the machinery which was multiplying the National Debt.

It had risen, you may remember, from £700 million in 1914 to £7,000 million some five years later, — modest-enough figures by our present-day standards, but still a heavy burden upon the proportionately smaller G.N.P. of the nineteen-twenties. The governments of that decade would endeavour to pay the £240 million of annual interest charges out of current income, supplemented by reparations demanded from the war-guilty Germans. But the Germans themselves had no money, and could only hope to meet their obligations in goods, — goods manufactured in German factories and exported to Britain and France to undermine the markets of domestic producers.

Lord Melchett, writing in 1932, suggested that a primary cause of the 1929 collapse and subsequent depression was the heaping of reparations upon an impoverished Germany beyond what she could possibly have been expected to afford, but no one but the occasional crank and heretic was saying anything about the money bomb that kept ticking away at the British Treasury, in the shape of a National Debt which refused to go away or diminish, no matter what sacrifices it demanded in the form of stunted lives and lost opportunities.

¶76 THE FALKLANDS WAR, — BRITAIN RECOVERS HER NERVE

Now let's move on to another war, — not the big shindig with Adolf Hitler, or the series of guerrilla, colonial and terrorist conflicts which from 1950 onwards erupted throughout Asia and Africa, — but a significant and highly revealing little war just the same.

April 1982! The Argentinian dictator, General Galtieri, with the tacit consent of One World internationalists inside the British Foreign Office, has just occupied the Falkland Islands, with their sparse but loyal population of fisher folk, small traders and sheep farmers. Dramatic reactions follow. Prime Minister Margaret Thatcher, living out her finest hour, hurriedly despatches a formidable task force of naval ships, transports, marines, commandos and specialist military personnel trained in diverse techniques of nocturnal skulduggery, — a force which, despite saddening losses of men

and equipment, ultimately proves more than a match for the local *caballeros*, who retire hurt, bewildered and humiliated, — outraged that the perfidious British have suddenly and belatedly found the nerve and resolution with which to defend their own.

It was by all accounts a daring and a brilliant campaign, fought almost entirely without land-based air cover, and against an air force equipped with many of the latest technological aids to mass destruction. Britain's naval and army professionals found a new pride in their training and preparedness as they added to their battle honours. The nation found a new unity, a sense of purpose and commitment which belied twenty-five years of decline and defeatism. The world suddenly became a safer place because the oldest of the Anglo-Saxon races had resurrected its traditional qualities of derring-do and self-reliance, — and the plan for the New International Order was set back by more than a decade.

¶77 COMPENSATING FOR THE COST OF TRIDENT

But what was the sobering thought which furrowed the brows of our most informed naval strategists as the rest of us hailed a famous victory? They were realising that had the challenge to our national resolution come along some eighteen months later, had it been delayed till 1983 or 1984, the task force of about a hundred ships which took back the Falkland Islands from a discomfited Argentinian dictator might not have been able to sail, — for the simple reason that so many of its vital fighting and supply vessels would have been scrapped as a result of the defence cuts of 1981.

Does that not make you pause and think, — that but for the precipitate impetuosity of General Galtieri, we might have allowed our navy to become so slim and emaciated that it would no longer be able to defend our kinsfolk on the other side of the Globe?

It was not something which had been allowed to happen surreptitiously, and without the general public being made aware of it. The defence policy pursued by the Government was presented as a series of options, with sacrifices having to be adopted in certain types of conventional armament so that more resources could be made available for updating and improving the nuclear deterrent. The author does not feel competent to debate the merits or shortcomings

of the Trident multi-headed missile system, though he is a solid supporter of the philosophy that we should never allow ourselves to get into such a position that we become the pathetic victims of nuclear blackmail.

However, Trident was earmarked to cost a great deal of money, in terms of the prevailing logic this could only be found by reducing expenditure elsewhere, and it emerged ultimately that the brunt of the cuts would fall upon the surface ships of the Royal Navy. Large aircraft carriers were to be phased out entirely. A number of destroyers and frigates would be compulsorily retired. There would be a significant reduction in back-up and ancillary vessels, and even HMS Endurance, our sole naval presence amongst the remote South Atlantic dependencies, was scheduled to be taken out of service.

None of this went without controversy. Former admirals trumpeted their indignation in the correspondence columns of London newspapers. Naval analysts reckoned the cuts were so severe that they heralded an irreversible downturn in Britain's maritime capability. Strategists wondered aloud whether the slimmed down version of the fleet which had emerged from the defence review would be adequate to protect our sea lanes in a general emergency, — and as though to symbolise the conflict of viewpoints, the Minister for the Navy resigned in protest.

¶78 LIVES LOST THROUGH DEFENCE CUTS

All right! General Galtieri decided to strike in the spring of 1982, and it appeared that sufficient of the fighting units and ancillaries which had been scheduled for the knacker's yard were still afloat and capable of being pressed into service. In record time a formidable armada of a hundred ships was assembled, armed, crewed and despatched from our southern ports to confront an entrenched adversary eight thousand miles away in the South Atlantic. The naval and military operations which ensued would rank as high in valour and expertise as anything in the proud history of our island race.

But when it was over, and the losses in men, ships and equipment were being evaluated, it had to be stated that at least some of the casualties could have been avoided if missile screens and anti-

missile devices had incorporated the latest technology. So! British ships were sunk, and precious young British lives were lost, because some of our fighting units went into battle without the latest sophistications which our native genius was well able to provide.

Why? Was it lack of time? A shortage of the technological skills necessary to fit the equipment and make it serviceable? Another shocking case of trade union muddleheadedness and who-does-what obstinacy impinging on our national security?

No, none of these things! It appeared that some of our proudest fighting ships were left as sitting targets for the Argentinian Super Etendard fighter-bombers because money had not been available to equip them with the latest anti-missile missile.

Ugh! money again! Men of the Royal Navy died in the Falklands campaign as a result of the 1981 defence review, in which cuts had been imposed upon the naval building and modernisation programme. And the cuts had to be implemented because, under the prevailing financial stringencies, the defence budget was not large enough to cover all possible contingencies. And the defence budget was not large enough because a Conservative Cabinet, with its strong leavening of practising patriots, was forced to make an agonising choice between military preparedness and the thousand and one economic, cultural and humane expenditures which a progressive industrial nation requires for its comfort and wellbeing.

¶79 GUNS, BUTTER, — AND THE DINOSAUR AGAIN

A repeat of the old *guns or butter* syndrome, isn't it? But why should there always have to be a choice or an option? Why not both guns *and* butter, — and better health and hospitalisation too, — if an ingenious and hard-working people should decide that both are necessary and desirable? It doesn't need the same design and craft skills to build tanks and frigates as it does to make artificial kidney machines or ambulance chairs for the skeletally deformed, — and if one or other of these activities is discontinued, it does not mean that there will automatically be more human and material resources available for the other. The fact is that within this highly developed, technologically sophisticated society of ours we have the brains, skills, energies, and many-sided ingenuities to produce guns, butter

and amenities a-plenty, if we do but capitalise upon the real wealth that lies everywhere to hand. It has happened already in times of dire emergency and national peril. But it can also be made to happen whenever there is adequate provision for *stirring people to industry,* and allowing them *to participate in each other's industry and the fruits of their labour.*

Did I hear you mutter something about money supply, the real earnings yield and the effect upon the Public Sector Borrowing Requirement? Well just remember that bit about men dying in the South Atlantic because their ships had not been equipped with the latest anti-missile weaponry, — which was of course denied them because of the economy cuts imposed by a Treasury Department that was feeding an antediluvian monster in its basement.

¶80 ISLANDS THAT WHITEHALL NEGLECTED

Then what about the state of the Falklands themselves? As the campaign against Argentina's invasion force was mounted, the nation at large learned how little the islands had been developed in a hundred and sixty years of British colonial government. There were, it seemed, very few miles of metalled road, only rough tracks which degenerated into mud and bog in the winter time, and became impassable to all but the most versatile of tracked vehicles. The runway at Port Stanley had never been lengthened sufficiently to take the big jets which would have established a direct air link with the Mother Country. And there did not seem to have been any real attempt to utilise the seaweed resources, which would have provided the raw materials for an indigenous industry.

Did the hardy Falklanders lack the energy and organisation for the quarrying of road metal? Did their sheep exports never leave them with enough of a surplus with which to purchase bulldozers, stone cutters and the odd road-laying caterpillar? Did they never find time or opportunity to *monetize* their own local assets, as did the island council of Guernsey in those dismal days at the end of the Napoleonic Wars?

We will find, if we choose to go into the matter deeply enough, that their development was retarded by lack of money, — good old British money, which would have to be raised in the London money

market, at the going rate of interest. Two hundred years and half-a-hemisphere away, it had been happening just like that on the North American seaboard, when the Parliament of George III rescinded the right of the settlers to issue their own colonial scrip. As a result they were unable to *monetize* the vast mineral and other forms of wealth which lay so readily to hand. Being a rare breed of independent-minded and God-fearing pioneer adventurers, they soon realised the enormity of the penalty that had been imposed upon their labour and enterprise, and — if we can believe Benjamin Franklin — sought relief from the bankers' sanction in the revolutionary wars.

¶81 THE TRUE EVILS OF COLONIALISM

In the last twenty years a great deal has been written and spoken about the evils and drawbacks of British colonialism, but as in so many other instances, the criticisms have concentrated upon various irrelevancies whilst failing to highlight the one intolerable abuse which would act for ever as a brake upon indigenous enterprise, — that the pace of development in many an exotic and otherwise idyllic setting was controlled by London Treasury officials and civil servants, operating thousands of miles away, in an entirely different environment and with an entirely different scale of values.

Excellent men they might have been, but how could they possibly have been expected to cater for the needs of a thrusting new colony *"in proper proportion to the demands of its trade and industry"?* In population terms alone, the great wide open spaces of our African possessions were crying out for exploitation whilst millions of unemployed walked the streets of British cities, pleading for jobs and opportunity. Writing in 1932, Lord Melchett noted that in ten years since the end of the First World War, the erstwhile colony of Southern Rhodesia had received only 10,000 people of our own stock, whilst the Jews in Palestine, with all their settlement difficulties, were able to introduce 100,000 per annum.

After the U.D.I. of November 1965 Rhodesia was destined to become a special case, — a country of unfathomed mineral wealth with a large rural population *which obstinately refused to be dragged into the cash economy,* and a government composed mainly of

successful white farmers who knew they had the potential to feed the whole of Southern Africa. She had been thrown out of the Sterling Area as a result of the sanctions embargo imposed through the British House of Commons by Prime Minister Harold Wilson, and what remained of her international trade had to be conducted as an undercover operation through friends in South Africa, America and Western Europe.

Here was resolve, self-sufficiency and a raw material treasure house all wrapped into one. Since those settler colonies on the American seaboard two hundred years earlier, had there ever been a better opportunity for a developing country to monetize its considerable natural assets? And had there ever been a greater challenge to the internationalists whose power was derived from their central control of money?

¶82 MEN OF VISION IN A COMMON CAUSE

The author has no idea how you personally reacted to the situation in Rhodesia after the Unilateral Declaration of Independence. You possibly conformed at first to the orthodox establishment view of a colony in rebellion against the Crown. You were perhaps stirred to anger and animosity by the propaganda picture of a group of white supremacists bidding for permanent suzerainty over the indigenous black folks of a developing nation. You maybe thought the whole gesture was over-dramatised and unnecessary, that things would have sorted themselves out peaceably and amicably if they had been allowed to drift along the way they were going.

Latterly, as you saw the intensity of the opposition that had been stirred up at the United Nations, in the whole British Commonwealth, and particularly in the capitals of the black republics, you could have decided that those hard-nosed Rhodesian conservatives had bitten off more than they could chew, that their elitist attitudes were an anachronism and an abomination in a world thirled to the principles of absolute equality, that they must either surrender or go down to an orgy of blood and slaughter such as had seldom been seen even in the bloodstained continent of Africa.

Came the guerrilla war, the Communist revolutions in neighbouring Angola and Mozambique, the infiltration of trained "freedom

fighters" along a thousand miles of hostile border; the era of shootings, burnings and unimaginable atrocities; the power-sharing compromise arranged with Bishop Muzorewa after the one-man-one-vote" election of April 1979; and then the final debacle under the temporary governorship of Lord Soames, when in an internationally supervised re-run of that election, the superstitious power of the witch-doctor and the all-seeing eyes of the *mugibvas* would be more effective vote-catchers than the arguments and policies of rival candidates; the fully anticipated emergence of a black Marxist politician who would follow the familiar pattern of binding his country to the philosophies of the East, whilst sending his begging bowl round Western capitals for development loans with which to build his own vision of *uhuru*.

After that those arrogant Rhodesians got their come-uppance, didn't they? Impoverished and disorientated, scattered to the countries of the old white commonwealth, or trapped within an Africanised society where they would be subjected to increasing pressures and humiliation! Their young men, so recently part of an elitist and militarily undefeated defence force, wandering footloose in America and Australasia, wondering what had happened to the ideals for which they risked their all!

It was a sort of internationally organised vengeance, wasn't it? directed not so much against the individual Rhodesian and his family as against the prospect that it should ever be allowed to happen again. Why? During those fourteen years of U.D.I. was this the only race which had assumed dominance and trusteeship over another? Were there not graver injustices and more grievous affronts to human dignity in Asia and in many other parts of Africa, than could ever be conceived within the easygoing paternalistic relationship that had existed between blacks and whites in Rhodesia? And had that same relationship been practised in Ungava, the Australian outback or the remotest fringes of Siberia, — instead of in a strategic, mineral-rich region of Central Africa, — would it ever have invoked a whisper of protest at the United Nations, or a campaign of sanctions, embargoes and orchestrated vilification over a period of fourteen years?

Friend! we're back to that bit about the raw material treasure house, — and the example that might have been shown to the debt-

structured economies of the Western World had those conservative diehards in Salisbury decided to monetize their considerable natural assets. It was a prospect which sent shockwaves through the boardrooms of those influential concerns who thrive on financial monopoly, — and *their* influence would be paramount in the final overthrow of Rhodesian independence, since it was they who provided the money.

In point of fact Rhodesia's challenge to the financial and monetary orthodoxies had been muted from the beginning; partly because of the virulent and unprincipled propaganda campaign; partly because her leaders, reacting to the frightening external pressures, were reluctant to take any steps that would provoke more international opposition; partly because some of those upon whom the heaviest responsibilities would fall were ill-prepared to seize *the urgency of great occasions.*

Prime Minister Ian Douglas Smith received scores of well-wishing overseas visitors at his office in Milton Buildings, Salisbury, during the years of U.D.I., but none got shorter shrift than those who advocated a resort to the monetary principles of Bishop Berkeley.

Even so, as mentioned in *The Lemming Folk,* his initial stand had caught the imagination of *men of vision all over the Western hemisphere, men who could lift their eyes from the bustle and trivialities of everyday, and look occasionally to the hills.* It was perhaps the coming together of such men in a common cause which would have the most lasting significance. They had become alarmed by trends in their respective countries, and their reactions to these would be given a new urgency by what they saw happening in Central Africa. It might be that Rhodesia was not an end, but a beginning.

CHAPTER XII

¶83 POST-WAR REVIVAL OF GERMANY & JAPAN

One of the remarkable features of the post-war period was the rapid regeneration of the economies of Germany and Japan, the former Axis Powers laid low by strategic bombing and military conquest, so that for several years, with their cities reduced to heaps of rubble, and many of their industries blasted out of existence, millions scraped and scratched for a living that would only then be made bearable by international relief based mainly upon American generosity.

Latterly, as the rebuilding progressed, as new cities and industries sprang up on the ruins of the old, and as international investment flooded in to take advantage, the erstwhile victorious allies became grudgingly aware of an economic miracle. Stimulated by the outside investment, and by their own resolve to make it effective, the Germans and Japanese were soon back into competition with the nations who had so recently ground them into the dust, and their momentum was such that they quickly assumed a predominance, outselling their rivals for quality, delivery and price in a large range of goods from automobiles to micro-computer technology.

When endeavouring to explain this astonishing revival, socio-economists would point to the natural discipline and industriousness of the German and Japanese peoples, their willingness to accept strong leadership and their almost fanatical determination to wipe

out the privations and humiliations of the military surrender. They would also indicate that the almost total destruction of obsolescent plant and factory complexes was a hidden blessing, in that it cleared the way for massive schemes of modernisation which would leave the vanquished with a dramatic technological advantage.

"Makes you wonder who won the war," the British and the French would say in their own respective fashions, as German manufactured products started taking over their most favoured markets, and the deutschemark became the preferred currency in the most expensive watering places of the Cote d'Azur. Meanwhile America was rather belatedly waking up to the fact that there was more of the vital semi-conductor output sited upon the islands of Honshu and Hokkaido than upon the entire American continent.

¶84 THAT HYPER-INFLATION IN THE WEIMAR REPUBLIC

So! the Allies had won the war and lost the peace that followed. Were the Germans and the Japanese proving to be superior peoples in the new technological age that had been ushered in by the robot and the computer? Were those sturdy Teutons so much more capable of sustained and productive effort than their fellow Anglo-Saxons from across the Channel? Had Japan's centuries of family tribalism, projected into an industrial dimension, produced a formula for economic predominance which would leave the bemused Western peoples further and further behind? And in the United Kingdom context, was it much to do with the backwardness and pigheadedness of British trade unions, which indulged in endless strikes and mindless bickering whilst their markets and their industrial prosperity were being snatched from under their noses?

The author has nothing original to offer upon the resilience and versatility of the Japanese. But the Germans are a part of Europe and its ancient culture, and there are certain aspects of their recent history which have never been accorded their true significance vis-a-vis national effort and productivity.

The British, proud of the longevity and continuity of their institutions, are inclined to look with disdain and self-congratulation upon the cataclysms which from time to time befall their more

volatile neighbours. The French and Russians have had their bloody revolutions, their guillotines and their purges. The Germans had their Bismarck, their Kaiser and their Hitler, all of whom led them into disaster in one way or another. They also had an extraordinary hyper-inflation in the aftermath of the First World War, during which it needed a shopping bag full of paper currency to buy the weekly groceries, and a waggonload for a modest suburban house.

That was in the days of the Weimar Republic. Many traumatic stories have been told about the uncontrolled inflation which was reckoned to have wiped out the German middle classes and prepared the way for the rise of Hitler. But it also did something else, which never invited popular comment. The total destruction of the post-war mark, with all its debit-bearing loans and liabilities, had also wiped out the Federal Government debt.

¶85 AN ECONOMY STARTING WITHOUT PUBLIC DEBT

So when did the Germans get their Federal Debt back again? Certainly not during the Nazi regime, which began about 1933, and continued till the military collapse in 1945! The methods of Dr. Schacht, Hitler's financial wizard, were strictly unorthodox, and whatever else the Nazis did, to their own people or to the millions that languished under them, they funded their war effort without leaving behind a debt structure which would burden their successors. Post-Hitler Germany, rising like a phoenix from the rubble, did so under the aegis of a brand new banking and financial system which owed nothing to the past. Thanks to the bizarre excesses of the Weimar Republic and the unorthodoxies of Dr. Schacht, those West Germans embarked upon their economic miracle with a negligible degree of national indebtedness, whilst amongst their former enemies and future trading rivals, the old and settled British were funding a debt of some £25,000 million, and the Americans, having faithfully and steadfastly borrowed their way through the later stages of the war, right up to and beyond the Allied victory, were annually paying interest charges on a Federal Debt of about $270,000 million.

We can put these differing circumstances into perspective if we relate them to the financial stringencies of the nineteen-eighties, and

reflect upon the number of desirable projects which we have seen cancelled or deferred because money was tight or outrageously expensive. It pinpoints the advantages enjoyed by an economy which did not need to set aside a substantial portion of its annual budget just to service a debt which had been established at the beginning of the eighteenth century.

¶86 END OF THE MIRACLE

Naturally the West Germans would not have been accepted into the international community unless they were willing to play the financial game according to the rules. That meant the newly reconstituted Bundesbank would finance the era of industrial regeneration and expansion by *lending money to the Government.* Thus by 1950 the Federal Republic's debt had got to 7,000 million deutschemarks, to Dm. 17,000 million by 1955, and Dm. 33,000 million ten years further on. Divide by 4 to get an approximate figure in pounds sterling, and you will see that the Germans' initial advantage was being progressively eroded, — though not in relation to their former wartime enemies, who just kept getting deeper and deeper into hock.

None of this should be taken as a comprehensive explanation of the differences in output per man hour between the old and settled British and their European rivals. Many factors have a bearing upon that comparative degree of productivity, and only one of them is being considered here. But no one should minimise the restrictions, inhibitions and downright discouragements which fall upon the wealth-producing sectors of an economy which labours under a crushing burden of government-funded debt.

Taxation, as every industrial cost-accountant knows, acts as a direct curb on output. The working man works expressly for himself and his family. He may accept heavy taxes for a specific purpose and for a limited period, but above a certain level further imposts invoke the law of diminishing returns. A man will tend to allocate the working day as between the time when he's earning for himself and the time when he's working for the Government, — and the Government will invariably get the worst of the bargain.

That is the true and inescapable cost of a debit-financing system

which attacks the productive worker at the very source of his earnings. It explains to a large extent why the British and their allies won the war, but lost the peace that followed. It also explains much of the sourness, slackness and bloodyminded lack of cooperation which have characterised worker-management relations in the postwar years. A labour force which sees its efforts rewarded by a positive improvement in living standards is usually too busy clocking up output bonuses to tolerate strikes, go-slows and the gerrymandering of politically motivated shop stewards.

Such for a time was the happy position of the West German factory operative when, with a negligible Federal Debt, and dramatic improvements in the economic life of the nation, he could see only too clearly the benefits of his high productivity. It did not necessarily make him a super-man, merely a functionary whose self-interest coincided with the needs of his industry. With the Federal Republic rapidly acquiring its own quota of postwar debt, and taking taxes out of the economy to pay for it, the benefits for the individual were progressively eroded, — and the German miracle was over.

CHAPTER XIII

¶ 87 FROM DREAM INTO NIGHTMARE

America and Europe! Britain and America! Over the last few chapters we've been shuttling back and forth across the Atlantic, sometimes in jets, sometimes in the creaky old sailing ships that followed the Mayflower. Yankees tend to read this author without the benefit of a translator, — which is encouraging, and belies the famous dictum of that crafty old Fabian George Bernard Shaw, when he reckoned that we were two nations separated by the same language.

However, it has to be admitted that for reasons of sheer proximity and closer familiarity, most of the nitty-gritty of the *money bomb* hypothesis has thus far been centred on London, rather than New York or Washington. This does not mean that the subject matter is not equally relevant in an American context. They may not have a dinosaur hidden at the U.S. Treasury, but whatever it is, it has shown its capacity to out-eat all the beefstock in Wisconsin, Iowa and Illinois put together. It is the existence of this gruesome monster which tends to mar the placidity of the Great American Dream, — if it is not already threatening to turn it into a nightmare, — and our survey would not be complete without a further sojourn in the land whose early pioneers gave the world of their day such an inspiring insight into the virtues of sound money.

"....capacity to out-eat all the beefstock in Wisconsin, Iowa and Illinois put together."

¶88 LINCOLN'S GREENBACKS

We have seen how the American colonists fought the revolutionary wars of 1775-83 against a British Parliament and Treasury which was forcing them to buy their funds at a discount from the Bank of England, and which was expressly forbidding them to monetize their rapidly accumulating natural resources by means of their own colonial scrip. All through that war there were perceptive and long-headed individuals, — perhaps only a few, — who understood the real cause for which they were fighting. But their ideas upon the proper application of money to a developing and expanding economy lived on into the next century, for almost a hundred years later they were revived by the great Abraham Lincoln when in 1861 he was faced with the problem of financing the Civil War against the Southern Confederacy.

He did so by persuading Congress to authorise the printing of his famous *greenbacks*, which were United States paper dollars backed directly by the Government, so that they incurred no debt and bore no interest. It is recorded that nearly $450 million in both notes and coin were spent into circulation between 1861 and 1863, that the amounts were declared legal tender for all debts public and private, and that they contributed substantially to the costs of the conflict. In 1866, when hostilities were over, the Treasury started withdrawing the *greenbacks* from circulation in payment of taxes, and despite pressure from the banking interests, which had overruled Lincoln in the latter years of his presidency, the fledgeling United States had emerged from one of the most debilitating and disruptive wars in its history with a manageable Federal Debt of $2,678 million.

¶89 LAND OF THE ALMIGHTY DOLLAR

In the half-century that elapsed between Lincoln's address at Gettysburg and the beginning of the First World War, the blood-spattered federal republic, so recently recovered from tearing itself apart, was turned into a Colossus and a symbol of hope for all the world's oppressed peoples. Many proud books have been written in an effort to explain the fantastic growth in agriculture, enterprise, invention and manufacturing techniques which made this possible.

At least some of their authors have been careful to note that the young republic did not have more than its share of natural riches, and that neither racial nor hereditary characteristics provided any satisfactory explanation for the dramatic upsurge in wealth-producing activity, since the most successful innovators were very often the misfits and the cast-offs, the poor and the dispossessed, who had emigrated from the miseries and the stagnant economies of Central Europe.

There is however a consensus that the concept of freedom had much to do with the emergence of American greatness, — freedom of the community and of individuals within that community to plan for their own prosperity, and to achieve it by their own considerable efforts; freedom within the state to preserve liberty of conscience, and to speak one's mind without fear or favour; freedom to associate with others of similar inclinations, and to further their group interests to the extent of their reasonable desires and ambitions; freedom to worship according to the tenets of their own creed, a privilege which had been denied them in some of the older European countries whence they came.

What about the money system? Hard though it may be to understand, you can read many of the chronicles of that period with only the most casual references to money, and the part that it played in galvanizing the settler communities to action. Yet Americans as a race are reckoned to have a keen interest in money. Not for nothing has the U.S.A. been christened the Land of the Almighty Dollar.

¶90 MONEY, — MASTER OR SERVANT?

We know that Abraham Lincoln's 1861 experiment with the *greenbacks* had not been allowed to continue. The issues were halted in 1863, and by the National Banking Act of that same year, future supplies of currency were to come from the private banking houses themselves. Lincoln was assassinated in his hour of victory, — some would maintain that it was because of his insistence on debt-free money, — and whatever else they might say about him in posterity, it would seldom be mentioned that he was almost unique in modern times as a statesman who led his people into total war, and tried to pay for it in his own time without charge on future generations.

Within that gaunt frame, within that brilliant legal mind, the heroic Abe had well and truly imbibed the principles laid down in 1710 by Bishop Berkeley, that money should be as a token *that stirreth people to industry, enabling men to participate in each other's industry, and the fruits of their labour.* His own method of bringing this about was to ensure that Government *created, issued and circulated all the currency and credit needed to satisfy the spending power of the Government and the buying power of consumers.* The privilege of creating and issuing money, he said, was not only a government's supreme prerogative, but also its greatest creative opportunity. If these principles were faithfully observed, money would cease to be the *master*, and would become the servant of humanity.

¶91 ONLY IN AMERICA

Yes Lincoln was dead, — killed by some seeming lunatic with a gun, — but no one could expect that the great ideals which he had cherished and promoted in his lifetime would ever be interred with his bones. There was in fact a spirit very much alive in the America of those days which made the older states of Europe very nervous. For instance, in the aftermath of the Civil War, the following comments were published in the *London Times:*

> "If that mischievous financial policy, which had its origin in the North American Republic during the late war in that country, should become indurated down to a fixture, then that government will furnish its own money without cost. *It will pay off its debts and be without debt.* It will have all the money necessary to carry on its commerce. It will become prosperous beyond precedent in the history of the world . . ."

So! what a correspondent in the prestigious *London Times* of the 1860's had to say about Lincoln's monetary principles as applied to American economic expansion in the latter half of the nineteenth century! And it happened, didn't it, — just as the man had forecast?

H. G. Weaver, one of those prideful authors prodded into a panegyric on his country's economic miracle, points out in *The*

Mainspring of Human Progress that "in less than a hundred years Americans have conquered the darkness of night, — from pine knots and candles to kerosene lamps, to gas jets; then to electric bulbs, neon lights, fluorescent tubes . . ." They had "moved from back-breaking drudgery into the modern age of power, substituting steam, electricity and gasoline for the brawn of man . . ."

Weaver frankly admits that many of these developments originated in other countries. But *"new ideas are of little value in raising standards of living unless and until something is done about them"*. The plain fact was that only in America had some of the world's most brilliant research and innovation been advanced to the stage where it would benefit the ordinary citizen in every walk of life.

Only in America! Why? Do we have to say it again? Abe Lincoln had been assassinated, and his *greenbacks* retired from circulation; the National Banking Act had restored the financial orthodoxies, and currency and credit had thenceforth to be borrowed from the private banking system at the going rates of interest. But that in itself was no deterrent to a young and thrusting nation whose growth was guaranteed for decades ahead.

Remember how the Scottish bankers had been praised for bringing their country out of barbarity to a position where it was recognised amongst the most prosperous in Europe. It had been claimed as a fundamental difference between the Bank of Scotland and the Bank of England that whereas the latter was founded *to lend money to the Government,* the former existed *to supply its customers with credit.*

Get the analogy? Those free-roaming, gun-toting bankers of America's great and expanding Middle West were certainly there to supply the people with credit. Many of them went bust. Others, becoming too rapacious in their demands, ended up having their necks stretched as the sequel to lynching parties. But in the main they came closer to achieving Bishop Berkeley's ideal than any other like group of men in the history of our modern nation states. For their own purposes, and spurred on by their own self-interest, they succeeded in monetizing to their fullest extent the latent energies and abilities of a free-thinking, hard-working people who had realised that prosperity and enhanced living standards lay within easy reach of their own

hands.

Money was the token that stirred people to industry, allowing men to participate in each other's industry and the fruits of each other's labour. It had happened in America during those fifty dynamic years that followed the Civil War, and just as the *Times* correspondent had prophesied, the result was a nation *become prosperous beyond precedent in the history of the world.*

¶92 FOUNDING OF THE FEDERAL RESERVE BANK

Yanks! sit back and preen yourselves. Call up the local banker, and over a Bourbon-on-the-rocks tell him what a great guy he is, — incumbent of a tradition which created the world's greatest republic. But before you do that, — before you twiddle with the knobs on the telephone, — wait for the sequel.

For there is a sequel, you know, — an episode so wrapped in mystery that the whole truth may never be known. But according to the editor of *Forbes Magazine,* it began with a meeting convened in 1908 by the then senator for Rhode Island, Nelson W. Aldrich. This was reported to have taken place on a private island off the coast of Georgia, and to have been attended by prominent New York bankers such as H. P. Davidson of J. P. Morgan, Frank Vanderlip of the National City Bank and Paul Warburg of Kuhn Loeb and Co. They were also accompanied by a Mr. A. P. Andrew, an assistant secretary to the U.S. Treasury.

This clandestine gathering was then told by Aldrich that it had been convened to evolve "a scientific currency system for the United States". The nation was coming of age, and it had to have more sophisticated machinery for dealing with the financial centres of Europe. What America lacked most was a central bank, and the assembled delegates, who are assumed to have listened dutifully, endorsed their chairman's main recommendation. The Aldrich Currency Report, which was understood to have been drafted at that secret meeting, went on to win approval from the U.S. Congress, and the Federal Reserve Bank was founded five years later *to lend money to the Government.*

¶93 GOVERNMENT BORROWING — TAXATION — INFLATION

So what were the longer-term consequences of that decision, taken in the first decade of the twentieth century, to provide the United States with a central bank along the lines adopted by its European trading partners? We know that thanks to the *greenbacks* of Abraham Lincoln, and the principled policies of those who followed in his footsteps, U.S. Government debt had been very well contained in the years leading up to the First World War. The country was effectively paying for its essential expenditure out of current taxation.

Yet in 1919, six years after the founding of the Federal Reserve, Americans were paying interest upon a debt of $25,000 million, and at the end of the Second World War, just twenty-six years further on, with the prodigious efforts and sacrifices that were needed to thwart the ambitions of Adolf Hitler, the figure stood around $270,000 million. Even after the main international conflict was over, — what with Korea and Vietnam, national welfarism and relief for the Third World, — the burden just kept on rising. $800,000 million by the time of Jimmy Carter's presidency in 1976! And at the latest point of reference, $1,000 *billions* in 1982!

What does all that mean to the factory worker in Milwaukee or the guy who runs a sales outlet in Madison Avenue? Primarily of course it means a faltering of that dynamic which had made America the hope and salvation of the older societies whence so many of its newer citizens had come. It wasn't that the Yankees had suddenly become less industrious, less thrustful, more inclined to seek betterment at the expense of their neighbours. But the existence of a rising Federal Debt meant that money had to be siphoned out of the economy every year to pay the interest. That interest did not necessarily return to the productive sector in the form of investment, so it had to be replaced by new money, which was also borrowed at interest from the banking system.

Next consequence! The Treasury, faced with its accumulating Federal Debt commitments, has to increase taxation so as to limit its future borrowings. Then since taxation and community debt can only

be shuffled off by either rapid growth or monetary inflation, people stop lending unless they can get a real return for their money, — which means that interest rates tend to run at least a few points higher than the inflation rate.

¶94 SPARKING OFF THE GREAT DEPRESSION

America, the giant of the West, in importing the monetary techniques which had originated in its European motherland, found that it was also importing the accompanying ills. Within two decades of the founding of the Federal Reserve, the country reeled under the most traumatic depression and financial collapse it was ever likely to experience, — something unheard of before the days of centralised banking.

As has been noted in an earlier chapter, one reason given for that Wall Street crash of 1929 was the impossible burden of reparations placed upon an impoverished Germany, who defaulted at the first opportunity. American banks had been heavily involved in the financing of German postwar reconstruction, and after the default they were so seriously embarrassed as to pull in their loans from domestic customers, thereby setting up a chain reaction which spread across their own economy and ultimately into the economies of Europe.

But it has also been claimed that the Wall Street stock market was pushed up to an unrealistic and unsustainable level by a riot of speculation which seized the American people during the late 'twenties. It is said that clerks, artisans and shopkeepers were entering the market on margin, bidding up the prices of their favourite stocks in the expectation of turning in a quick profit when their holdings had appreciated in value. In such a situation the judicious operator who is not too greedy can move in and out of a rising market without risking his own capital, and in the run-up to that Wall Street crash there were probably many who did so very successfully. When the bubble burst of course, those who were still in there waiting to make their fortune, found instead that they had lost their all. The repercussions ran coast to coast across the entire American continent, and the whole syndrome sparked off the Great Depression of the early nineteen-thirties.

¶95 SPECULATION, — AND THE DISTORTION OF REAL VALUES

Had the unhealthy mood of speculation been a main contributory to the crash? Obviously no single factor could have initiated such a cataclysm, but the phenomenon of feverish marginal dealing in the markets of that time seems to be a fact of history, and has to be considered as one of the causes.

So what causes speculation? Is it a matter of temperament, emotional instability, greed, or fits of irrational optimism? Is it more likely to be exhibited by the inhabitants of great cities than by the stolid dwellers of the wide open spaces? Is it a product of age, sex, race, status or profession, — or is there some other aspect which may not yet have been highlighted in this context?

Friend! there's a subtle feature of speculative behaviour which reflects the public attitude to money itself. When money is in its right place, fulfilling its proper function, men's minds are fixed upon the goods and services which money can help them to exchange. In such an economic environment the producers of real wealth are seen to earn a fitting reward for their labours and expertise, and in fact productive and community endeavour are portrayed universally as almost the sole means whereby the individual can get himself a goodly share of the world's riches.

Let there just be a change in the emphasis however. Raise the interest rates. Exacerbate the debt structure. Turn money into a commodity which can be bought and sold at a profit. Then you create a breed of men who live by their dexterity at the exchanges. When these men are seen to prosper more considerably than the producers of goods and services, there is a desire amongst the ordinary plodding citizenry to command a share of the action, and to participate in what are seen as easily made profits. Many a fond illusion was wiped out in the collapse of Wall Street share values during the crash of 1929. Whole volumes have been written about its causes and repercussions, and about the sinister shift in real estate ownership which took place during the spate of liquidations and forced sales which followed. But we shall content ourselves meanwhile with the comment that it was just one of a chain of events that were set in motion 'way back in 1913

when the Federal Reserve Bank was formed *to lend money to the Government.*

¶96 WHERE DOES ALL THE MONEY GO?

O.K. We've been through the gruesome statistics of America's graduation into international nationhood. Federal Debt of $25,000 million by 1919! $270,000 million at the end of the Hitler war in 1945! About $475,000 million after the Vietnam imbroglio — and still rising!

But even with that considerable burden on their shoulders, — and being impressed upon them in the form of increased living costs and Federal taxes, — the American people still had a mission and a goal which would inspire them to another generation of altruistic endeavour. They paid and gave, — and for a while just went on paying and giving. All the time Federal taxes kept rising, and Federal expenditures escalated. It was an era of apparently endless and self-perpetuating growth. Uncle Sam's exchequer had become a soft touch for anything and anybody who had a cause to champion, or a need that might be impressed on a sympathetic congressman. Who should care, when the money was so easy to come by?

By the time of Jimmy Carter's presidency in 1976, it was costing about $50,000 million just to meet the interest payments on the public debt alone, and according to Dr. Edward E. Popp, author of *The Great Cookie Jar,* who interpolated some figures a few years earlier, it might be that the annual interest bill, both public and private, for the whole American nation, was somewhere in the region of $200,000 million.

Astronomical sums, aren't they? Well beyond the comprehension of the man in the street, the artisan with his weekly pay check or the shopkeeper totting up his new electronic cash register! And the next question we're bound to ask, — if we're at all curious! Well, just where does all the money go? If $200,000 million is disappearing out of the American economy every year, how much of it comes back to the private investor in dividends? How much is spent back into service industries? And how much just vanishes into the wide blue yonder?

After all, it can't be the hard-pressed family man on a mortgage

who is finding those gigantic sums for the funding of Government debt. If it depended on him, — what with the taxes and the cost of living, — Uncle Sam would have been obliged to pull his horns in long ago. Maybe Prime Minister Thatcher's office could get away with telling the British public that the National Debt is something which they owe to themselves. But try telling that to the hard-headed American taxpayer, — and you're likely to get a saucy answer.

So it has to be the banks and the financial institutions who are putting up the bulk of the money. Not real money as you and I understand it, — earned with the sweat of the brow or out of productive investment! But bank credit, effortlessly created on the fractional reserve formula, and made available as a set of digits on somebody's visual display unit! Likewise, when the interest payment falls due, it's those mammoth, mysterious financial institutions who stand ready to receive. So! back to the original question! What do they do with the mountains of cash which are siphoned out of the economy and shuttled back to them every year as service charges on those ever-increasing Government loans?

There's a sinister answer to that one which will presently come to hand. We will find, in fact, that there's an association with banking defaults amongst the Comecon countries and the Third World in the nineteen-eighties, — *that* and the frightening supply of highly sophisticated Western technology to the Soviet Union.

CHAPTER XIV

¶97 AN INSATIABLE DEMAND FOR GROWTH

Now that we've examined most of the explosive ingredients that go into the making of the money bomb, it's getting near the denouement, and that bloke who keeps popping round to the last chapter won't need to pop much longer. But before we start messing about with the fusing, it is necessary to uncover one inbuilt trigger mechanism which has always had a de-stabilising influence upon the whole system. That is its insatiable demand for growth.

All who read the financial press and the Opposition speeches of party politicians have a fair idea what is meant by *growth* in an economic sense. It means businesses, industrial complexes, communities and Gross National Products just getting bigger and bigger. More houses! More cars! More consumer durables! More money in the pockets of the workers! More turnover and profits in the balance sheets of companies and corporations!

Those who live close to nature are aware that life itself does not work that way. Young things everywhere have a voracious appetite for growing. But when they are fully developed, they stop growing, and find a pace at which they can settle down. Not so with the financial system whose fallacies and inherent instabilities have been highlighted in this volume! There was a clue to this basic weakness in the parable of Salvation Island, where the castaways, having realised that £80 of their note issue was due to go back to the banker every

year in interest, soon tumbled to the conclusion that it would not be long before he possessed them all entirely.

How did Oliver endeavour to assuage their fears? By immediately offering to double the note issue and upvalue their business holdings accordingly! That is in effect what has to happen when governments and communities do not create their own credit, but bind themselves by protocol to borrow at interest. As soon as the first round of service charges has been withdrawn from circulation, more borrowings become necessary to promote the same level of commercial activity, and you immediately have an expanding money supply without any guarantee that it will be matched by an increase in goods and services. The classic scenario for self-perpetuating inflation!

¶98 REPLENISHING THE COOKIE JAR

It was all right in the era of the covered waggon, when there were always new virgin lands to explore, and Man and his banker met the challenge of the constantly moving frontier. No problems about growth in those days! Everything was growing fast. Population! Cultivated land! Industry and the provision of services! Mineral wealth! Know-how! Invention! And humanity's capacity for controlling and improving its environment!

Within reason, it didn't matter what the banks charged for their credit. Traders who were financing rapidly expanding enterprises paid the price without question, and reaped handsome profits withal. In the mad scramble to stake out the West and reach for the Pacific seaboard, no one had any time to reflect upon the debt structure which was distorting and stagnating the older economies of Europe. All that those bustling and thrusting pioneering frontiersmen wanted to know was that there would be credit available to monetize the wealth as fast as they were creating it. They didn't exactly describe it in those terms, but they would sure have been halted, dismayed and discomfited if somebody had not gone on replenishing the *Great Cookie Jar* as fast as they were emptying it.

¶99 MACHINE IN NEED OF MAINTENANCE

How different when all the frontiers have been reached, — when eight-lane motorways obscure the Oregon trail, and there's

pollution in the San Fernando valley! The frontiersmen have become a nation, the nation has come of age, and its growing days are over.

The trouble is that the System can't adjust. It just says grow! grow! grow! or something's going to bust. So you have all sorts of promotion and advertising stunts just to keep up the illusion of growth long after the natural process has expended itself. You get inbuilt obsolescence, product cult crazes, model changes, fashion revolutions and a whole kaleidoscope of new looks, impressions and ideas that are recycled with increasing desperation as they react with diminishing effect.

Now at this stage, stuck with an engine that's grossly overheating and misfiring on several of its cylinders, a good engineer would switch off, climb out of his cabin and get down to overhauling the machinery. That is what the Western nations might have done in the nineteen-sixties, if they could only have been made aware of the convulsions that would grip them in the 'eighties. Unfortunately no good engineer was ever allowed to touch the controls, far less tinker with the injection system. The machine just went stammering along.

¶100 CREDIT GOES FOR EXPORT

As for the bankers, well it seemed that no one was able or willing to understand their problems. Here they were with the most wonderful machinery for creating and marketing money, and more and more capacity for less and less utilisation as the funds kept piling up.

So what did they do? They did in fact what the cow did when, having close-cropped its own patch of meadow, it stuck its head over the wall and decided that the grass looked greener on the other side.

Over the Wall or under the Curtain! It made no difference to those venturesome bankers, even though the access was covered by machine-gun nests, minefields, tracker dogs and constantly swivelling searchlights. For their desire to seek fresh pastures had taken them into Eastern Europe, where, in the straitjacket economies of Russia's satellites, they found an exciting new growth area ripe and ready for their exploitation.

It seems in retrospect that no one had anticipated what was likely to happen, — that the modest growth rates physically achiev-

able by the developed economies of Western Europe and the U.S.A. in the second half of the twentieth century were not sufficient to satiate a debit-financing system which could only be kept in equilibrium by constant expansion or steadily rising inflation. Vast sums which were pouring back into banking circles every year in the form of loan interest could no longer be fully utilised domestically, and so, surreptitiously, without the ordinary taxpayer being aware of it, credit went for export. American banking took its financial muscle and its expertise off to the Far East, where it built up the previously under-developed economies of Taiwan and South Korea until their manufacturers were able to undercut and outproduce their mentors in the industrial West. Both American and European bankers competed in the new scramble for Africa, which had been colonised from Cape to Cairo in the nineteenth century, but had then lived placidly enough for another seventy or eighty years until the Money Power ran out of frontiers.

In a socialist state, paying lip service to pure Marxism, and constantly reiterating the public ownership of all forms of production, distribution and exchange, it should have been ideologically impossible for the bankers to get even a toehold. But life is full of surprises and contradictions, and one of the least known paradoxes of the Russian Revolution was its adoption of an orthodox banking structure as early as 1921.

¶ 101 TEA AND SYMPATHY FOR THE POLES

So the Russians themselves, and all their sad family of socialist republics, had built no barriers against the borrowing of bank money at interest. For one thing, it provided them with funds which could be used to buy goods and expertise in Western markets, — and they were all desperately anxious for the products which the West had to offer.

As documented by Professor Antony C. Sutton in *National Suicide*, the Soviets used the easy credit terms made available to them by American and European bankers to build up their military technology at the expense of the democratic peoples who were its intended victims. The satellites, imbibing socialist ideology at the expense of common sense, never had a chance to monetize their

wealth on the lines indicated by Bishop Berkeley, and borrowing from foreign banks became the easy option as their economies sank into stagnation and paralysis.

The extent of these borrowings did not become generally known until the uprisings in Poland in 1980-81, which threw into stark relief the pathetic sufferings and desperate poverty of a nation consumed by usury. In the nine years previous to the formation of Solidarity, Poland's foreign debt had risen from $800 million to $23,000 million, and at that latter point it was reckoned to be absorbing about 17.5% of the Gross National Product.

In Britain and America, where there are universal Polish sympathies, hearts went out instinctively to the working men who with little more than their bare hands to sustain them, had taken on the formidable apparatus of an authoritarian state. Sympathy was not enough, — and even the generous private relief that was organised by well-wishers in Britain and Europe could do little more than ease the suffering of a bare minority as the tanks rolled into Warsaw and other major cities to back up a desperate government that had been frightened into martial law.

Inevitably there would be bitter complaints that official reaction in the West had been muted and ineffective. Behind the military government of General Jaruzelski loomed the massive shadow of the Soviet Union, and it was assumed that the N.A.T.O. nations, whilst feverishly looking to their own defences, were unwilling to provoke a confrontation within the Russian sphere of influence.

Was that in fact an accurate interpretation? Apart from their kith and kin now settled in Western countries, and the ordinary folks of all nations who were moved by their daring bid for freedom, who else were on the side of the battered and impoverished Polish people? Democrats? Republicans? Tories? Socialists and Communists of the various Left-wing parties? Trade unionists? Members of the Stock Exchange and the Institute of Directors?

What about the bankers, — those big influential bankers who had shuttled their electronic money so swiftly and effectively beyond the Iron Curtain that the total foreign indebtedness of the Comecon countries had risen to $70,000 million in the previous ten years? For whom were *their* cheer-leaders rooting as the tanks swung into

action, as workers blockaded their factory gates, and miners stayed down their pits? Would *they* have welcomed a general uprising, a people's victory which would have resulted in another Polish revolution, and the overthrow of the regime which had piled up those multi-million dollar loans? Or might they not rather be hoping for a good military clampdown, so that they could get the pathetic Polish economy moving again, and their interest payments resumed?

¶ 102 THE $23 BILLION THAT QUIETLY DISAPPEARED

Friend! comrade! at this stage you've simply got to put aside some of your preconceived notions, and decide which is the greatest tyranny, — that of the tank, the gun and the jackboot, or the oppressive, cumulative burden of the usurer? Poland had taken upwards of $23,000 million of foreign money in less than a decade, and most of it had quietly disappeared. She had been allowed to borrow up to about 17% of her Gross National Product, and it should have been obvious to the most purblind optimist that even though she bred a race of worker stakhanovites and found her rivers oozing with crude oil, she was never going to be able to repay these gigantic sums, either by sale of resources or community endeavour.

So why? Why go on lending to a bankrupt borrower, when she would one day be unable to find the interest, let alone repay the capital? Why go on feeding ephemeral paper credits to a corrupt bureaucracy when the only hope for the people that it feigned to serve was that they might ultimately be relieved of their debts and their foreign patrons, and blissfully left to their own devices?

Yes, brother! our hearts went out to those poor brave souls of Solidarity in the snow and bitter cold of a Polish winter. But sympathy is not enough. We need to look beyond our own inborn prejudices and the opinion-moulding of the mass media, and study the facts of the matter, as they have now been brought to our attention. $23,000 million lent to Poland! $10,000 million to East Germany! Another $40,000 million spread between Bulgaria, Czechoslovakia, Hungary, Roumania and Russia herself!

Whose money? Your money! Our money! Screwed from the taxpayers of the Western World, either in National Debt interest or servicing charges on company and corporate borrowings, — whirled

up in bank reserves and shuttled electronically into the state-controlled accounting systems of the Kremlin and its satellites! Few of us have much idea of the mechanics involved, but we do understand, don't we, the magnitude of the ultimate evil, — the everlasting oppression of peoples who are God's children like the rest of us, and have an equal right to live in happiness and plenty?

It all started with the central bankers, when they were appointed *to lend money to their governments.*

¶103 TECHNOLOGY FOR RUSSIA'S GAS PIPELINE

Let's now take a closer look at some of the other consequences that ensue from this vast outflow of Western credit into the collectivised economies of Eastern Europe. It is generally hypothesised that the lending helps to provide jobs in the home country. Those Eastern Europeans need most things, so you lend them the money to buy the products which you are only too eager to sell, — even if they are already so deeply in debt that there's no chance of them paying the interest on what they've borrowed. In times of low growth and high unemployment this convoluted argument finds fierce support amongst politicians, trade unionists and industrialists, as they become hooked on massive contracts to supply capital goods and high technology to our ideological enemies of the Soviet Union.

A classic case arose in the autumn of 1982 when a Scottish firm, John Brown Engineering of Clydebank, were about to deliver the first consignment of turbines for a pipe line which would ultimately enable the Russians to sell enormous quantities of natural gas to the industries and domestic consumers of Western Europe. President Reagan of the United States, having belatedly realised the strategic implications of this development, endeavoured to halt or slow down its construction by threatening trade sanctions against contractors who continued to fulfil their agreements.

Predictably there was a furious reaction from all concerned. Those damned Yankees had no right to interfere in other people's domestic affairs. Didn't they realise that British jobs were at risk? The trade unions, and the work forces directly involved, were particularly strong on this point. Also, contract documents had been signed, and the country's commercial honour was at stake. Manage-

ment, and the employers' organisations, were unequivocal and uncompromising on that one. The British Government, whilst making it clear that there must be no serious breach of cordiality and cooperation with the American ally, felt that a vital question of principle was at stake. If the White House intended to block Western technological participation in the Russian pipeline, it should have said so before there were contractual commitments. John Brown's were publicly informed that they must defy the proposed American sanctions and fulfil their obligations to the best of their ability.

With French and West German contractors being similarly supported by their governments, there were the makings of a damaging diplomatic row. Not only did it seem that the Soviets were going to get the specialised assistance they had solicited, not only had they succeeded in exploiting differences between the various members of the N.A.T.O. Alliance, but they had also created a favourable atmosphere for the transfer of more technological equipment and expertise in the future. It would become almost a badge of virility for firms and governments to show their independence by promoting East-West trade in defiance of any embargoes which President Reagan might bring against them. Who cared a monkey's damn about Russian economic blackmail or ultimate political and military dominance, so long as those overbearing Yankees got their come-uppance? In the depressed trading conditions of the 1980's, it was jobs that really counted, and they weren't going to be dissuaded even if it meant that the best of Clydeside engineering was exported to beyond the Urals.

¶ 104 WHO GETS THE BEST OF THE BARGAIN?

It the light of what we have been discussing in earlier chapters, what should be our attitude to situations such as have arisen over the Siberian gas pipeline? Should we join the band of industrialists, trade unionists, Labour politicians and media commentators who had come together in this instance to insist that British companies must have freedom to trade in European markets regardless of ideology or strategic considerations? Should we go along with the Government in its reluctant but firm conclusion that a contract is a contract, — and that, if the Americans truly felt the whole concept jeopardised

Western security, they should have stepped in with their sanctions and embargoes before any bargains were concluded? Or should we take the viewpoint that since the U.S.A. is the major partner in the defensive alliance which keeps the Russian bear off our doorsteps, we should defer to their wishes in all matters of technological exchange, — even though we have learned from Antony C. Sutton that American companies were responsible for building up the Soviet war machine in the first place?

It may be, of course, that having thoroughly imbibed the lessons of those earlier chapters, you are now ahead of us in finding answers. This whole business of sending sophisticated capital equipment beyond the Urals so that Clydeside engineers can stay in work and maintain their families, — it's part of the tragic farce of distorted values, isn't it? All to do with those misconceptions about money, — and the purpose for which it was intended!

It started off as a means of sharing, exchanging and distributing wealth, didn't it? A monetization of each man's product in proportion to its scope and its usefulness! It was sound and incorruptible whilst it could still be related to barter, — a cow might be had for five pounds and a sheep for two, so if you had two cows you could expect to exchange them for five sheep, or vice versa. On the other hand, if you had no particular interest in livestock, you might prefer to have the Treasury notes in your pocket. But at least you had a simple means of relating them to items of real value.

Not so easy with those multi-million pound capital goods contracts, to see who's getting the best of the bargain! The Soviets get their power stations or their turbines, which assist in the development of their industries or their natural resources, and to that extent they must be well satisfied. The company which supplies them gets substantial dollar or sterling credits, which keep its workforce on overtime or bonuses, — and on the surface everyone is contented, — so contented in fact that there is an angry reaction whenever some external agency threatens to interfere.

But might not the substantial sterling credits have been allocated to better advantage in our own country? A firm of engineers which deals in modern sophisticated technology, — that is wealth! It is proper that the credits should be made available to monetize that

wealth, otherwise good engineers go idle, and their machine tools rust on the factory floor. The distortions and the contradictions arise when it comes to deciding where the wealth should be deployed. At home, perhaps in the development of our own power and water resources, where a soundly based capital project might go on producing more wealth into the indefinite future? Or far away on the other side of the world, where an unfriendly society which has already threatened to bury us, is permanently advantaged by the skills of Clyde or Tyneside?

O.K. We're being obtuse, aren't we? Everybody knows that our companies export their sophisticated capital goods for the money that it brings in, — and that they can't sell their skills at home because no one is willing or able to employ them. It's the money that's all important, overruling native considerations of need or strategic security.

¶105 EXCHANGING CAPITAL GOODS FOR ELECTRONIC MONEY

Money! Remember what we had to say about the money-making propensities of the fractional reserve banking system, and how it had developed an insatiable appetite for growth? How it was able to infiltrate even the most closely guarded frontiers, and saddle the static, bureaucracy-ridden economies of Russia's satellites with loans that they would never be able to repay? These loans, as we have seen, were used in many instances to buy consumer goods or capital equipment from the industrial West. So once again we had an outflow of materials and expertise, — and to whose advantage?

If we had done it for charitable purposes, then we would have been fully justified. For there must be many occasions when it is God's will that we give the other fellow a helping hand. But if we did it for money, — bankers' money, electronic money that had originally been siphoned out of our own economy in payment of interest, and had subsequently been loaned to a foreign government in expectation of more interest, — then we were back to the syndrome of the puppy that chases its own tail.

Effectively we were giving away our own substance, and receiving in return nothing but the bank credit which might already have been created as a charge against our own national assets. All

very elusive and frustrating, isn't it? Diabolical, in fact, yet substantially accurate, if you close your eyes to the flickering pound signs, and confine your measurement of wealth to items of real value!

Antony C. Sutton proved conclusively in *National Suicide* that the massive and terrifying Soviet military machine had been built up by Western technology. Forget about the multi-million dollar contracts which motivated American and European electronic and engineering companies into supplying that technology. Concentrate instead upon the reverse flow of goods and services which normal trade is expected to stimulate. And tell us, if you can, what the West got in exchange for those truck and tractor assembly plants, for the computerised guidance systems, the airfield monitoring equipment, the advanced developments in missile and rocket propellants.

How did they pay? In timber? wood-pulp? furs? agricultural products? objets d'art? gold? precious stones? What in fact did this Soviet trade contribute to the standard of living and the quality of life in the countries from which the sophisticated technology had been extracted?

Not much, you might think! Or indeed nothing at all, — if it was financed by bank loans in which the capital element became less and less important as the banking consortiums manipulated and manoeuvred to stave off a default on the interest payments! So the banks had created the money against Western asset values, exported it behind the Iron Curtain, brought it back in payment to the dealers in military hardware, then effectively monitored such a vast transfer of sensitive and critical technology that it would upset the balance of world power.

¶ 106 MILLIONS CREATED WITHOUT SWEAT OR EFFORT

That is one side of the story. We know what the Soviets were getting. They were getting power plants with which to develop their natural resources, as well as capital goods and know-how to build up their military machine, — all very gratifying for a Kremlin power clique which hoped that one day it might frighten the world into submission!

But what of the satellites, — those socialist slave states which

lived in the shadow of Russian power politics, and were always obliged to toe the Soviet line? They also had become the recipients of massive loans from the restless and ubiquitous bankers of the capitalist West. East Germany $10,000 million! Roumania $8,000 million! Hungary $8,400 million! Poland rising up to $27,000 million!

Of this latter country it would be reported in 1981 by travellers who knew the land and its people that none of the foreign bank money had been reflected in an improved level of industrial and community investment. In fact it appeared that much of the cash had been frittered away by "a Soviet-style bureaucracy" with "an insatiable appetite for wasting communal resources".

So for much of the post-war era, and particularly during the seventies, private Western banking houses had pumped funds into the Comecon countries of Eastern Europe, till at the end of the decade their joint indebtedness was a baffling and totally irredeemable $70,000 million. Very little of that enormous sum would provide better housing, hospitals and living standards for the proletarian workers of Lodz, Poznan and Gdansk. It would on the contrary prove to be an increasing burden upon their earnings and their upkeep as their governments struggled to finance an escalating bill for interest charges.

Latterly, and inevitably, came the defaults, as those hopelessly uninspired socialist economies buckled under the strain. Financial circles buzzed with rumours of a world-wide banking crisis, and economic commentators talked wisely about solving the problem by re-scheduling the debts, — which is, of course, a euphemism for throwing good money after bad.

Money! Multi-million dollops of it, — and none of it tangible enough to touch! Created so smoothly and effortlessly that no one ever had to sweat for it. No one even had to count it. Yet its existence as a banking statistic could confer a certain form of power.

¶ 107 THE POWER OF THE PURSE

In 1980, when the author was launching *The Lemming Folk*, in which he had occasion to mention the apparent machinations of the Money Power, he was accosted by a sceptical radio commentator,

who asked him whether the book would be expected to find its way on to the *fiction* shelves of the local library. Ha! ha! Good point! Peal of laughter all round!

This type of debunking criticism is in universal use wherever vested interests become nervous of unwarranted research into their covert activities, and the term *Money Power* has a kind of conspiratorial ring which sets the alarm bells buzzing, and warns their lookouts in the media to put up the shutters. Nevertheless it would be very unwise for the unbiased reader to dismiss anything he has read within *these* pages as fiction, since, if he does, it may distract his attention from the issue which transcends all others in the social and economic life of our industrialised society.

So we shall content ourselves with the non-controversial assertion that money *is* power, — in the respect that it is able to command both goods and services, and motivate people into action. Power to shut down existing factories and open up new ones! Power to shackle the independent-minded and favour the monopoly! Power to defy monarchs and presidents and their elected governments! "Let me issue and control a nation's money," exclaimed the legendary Amschel Rothschild, "and I care not who writes its laws."

That is exactly what has been happening. The bankers have been left in control of the nations' money, and even the most determined and reformist government finds itself unable to implement the policies for which it gained majority support in the first place. No one had observed this with any great clarity until the Thatcher Government of 1979, waving Milton Friedman's monetarist textbook, set out to achieve a policy of highly desirable conservative objectives by means of that very commodity, — money, — which was not theirs to command.

¶ 108 BANK EXPANSIONISM THAT DEFEATS GOVERNMENT POLICY

We saw it all going wrong, didn't we, — you and I who lived through that experience? Chancellor Sir Geoffrey Howe felt he could restrain money supply, — and thereby reduce inflation, — by cutting government expenditure, increasing indirect taxes and jacking up the MLR. When the first few months of this strategy produced

results contrary to expectations, he moved the lending rate higher still, and spread his indirect taxes over everything that moved or breathed. By this time productive industry was on its knees, since companies which had to borrow extensively at 20% could rarely do so and remain profitable. Meanwhile, as the wealth producers faltered, the financial sector was booming as it had seldom boomed before. Loan agencies, investment consultants and other types of vaguely disguised money brokers opened up at many an erstwhile vacant site in local High Streets, and Lloyds, one of the banking giants, even had the effrontery to buy out a Norfolk estate agent, thereby giving the property market a direct access to the money-creating facility.

Bank expansionism, based on monetarism and dear money, was going its own way regardless of government policy or national interests. It was a supreme example of the folly into which men had degenerated when they so far ignored the injunctions of Bishop Berkeley as to make illusory credit and financial dexterity their criterion of wealth and success, — instead of paying due attention to the physical and human pleasures which accrue from a proper exploitation and sharing of God's bounty.

¶ 109 PINPOINTING A FALLACY

It is one of several fallacies, perpetuated throughout the capitalist era, to assume that bankers are conservatives, or that the banking system is at least in sympathy with what Conservatives in government might want to achieve. Nothing could be further from the truth. Banking, — and particularly modern international banking, — sets its own standards and objectives, its own code of non-morals. It has little attachment to native culture or country of origin, and whatever the individual within the organisation might hope and pray and feel, the mechanism itself, functioning with the aid of its new range of electronic devices, restricts, distributes and allocates according to the growth needs of the banking system itself.

The author has as yet no idea what the average party politician, — whether of leftist or right-wing sympathies, — will think of this hypothesis; whether they will even be dissuaded from reading it by derisory comment from influential quarters. But he *does*

know that so many of the issues which have been discussed here must be resolved if our free-enterprise, wealth-producing capitalist system is going to survive.

It brings us right back to government debt, doesn't it? Government debt and its accompanying inbuilt inflation, which can only be kept in check by suppression of human endeavour, and draconian levels of taxation! If we could only deal with this monster, — if we could only kill off that dinosaur at the Treasury, — we would then be free to enjoy the fruits of our own advanced technology; to lower taxes, raise living standards, revive productive employment in an economy where growth would no longer be a desperate necessity.

A consummation devoutly to be wished! Then how should we go about achieving it?

CHAPTER XV

¶ 110 STIPULATING THE CONDITIONS

We agree that there's got to be an answer, don't we? We've built the argument up stage by stage, until by now it should be utterly convincing. Somewhere in the next few pages we've got to come up with something which will put an end to the crazy farce of government borrowing that is perpetuated by the necessity to pay the interest on previous borrowings.

We need a proposal, and that proposal will need to be something special, so that it will appeal instantly to all men of goodwill, and be capable of prompt implementation within our existing laws and procedures.

In view of the momentous nature of the undertaking, some other caveats, provisos and strictures come to mind. It has to be something which puts the lid on the National Debt without convulsing the banking industry, interfering with the existing credit creation process, or affecting the relationship between the trading banks and their customers; neither should it penalise the thousands of holders of Government stock who have contributed to the Debt in the past. It has to be something which does not come between investors and their investments, or curb the legitimate functions of the stock markets and the exchanges. It has to be something which will not disrupt our international trade, erode our gold reserves or impact our balance of

payments.

Ideally it should be seen to correct our present obsession with finance and monetary dexterity, bringing us back to an adequate appreciation of productive endeavour and community service; and it would help if it was something which could conceivably be incorporated in the manifesto of a leading political party, so that at some stage it might be considered and evaluated by the electorate.

It ought to be something which reinforces and complements governmental anti-inflation policy, which is always welcome as far as it goes; and whilst endorsing the impeccable logic of Milton Friedman in applying the accountability of the market to inefficient and bureaucracy-ridden economic structures, it should also cater for that one essential factor which he himself neglected. (Remember that the joker in *his* pack is "the high-powered money" which gets into the system as a result of extensive government borrowing, and which can then be used by the trading banks on the *fractional reserve* principle to multiply money supply ten times over).

¶111 HOW THE TREASURY FINANCES ITS CURRENCY ISSUES

A tall order? Fiscally irresponsible? Politically and economically impracticable?

Certainly a major stumbling block is the rigid opposition to any form of government credit. Official thinking on this subject, as conveyed in a recent reply from a Treasury minister, is that "a regime where credit by the Government is *neither repayable nor incurs interest* would not solve the problem of inflation; indeed *by releasing restraint on credit creation* it seems well calculated to make it a great deal worse."

So there we have still another caveat or proviso, — that any proposal which *releases restraint on credit creation* is sure to founder. Can we therefore ever involve the British Government and Treasury in the credit-creation process at all? Would it be wasting our time and that of our readers to suggest for instance that H.M.G. should ever *do a Guernsey* or a *Lincoln* by up and printing its own banknote issues? That had been the privilege and the prerogative of the Bank of England since it was founded in 1694.

But who decides when and how many banknotes should be printed, and what is the procedure by which they find their way into circulation? In its booklet *Government Debt and Credit Creation*, the Economic Research Council produced figures to show that the note issue had increased from £1,400 million in 1945 to £10,625 million in 1980. Not surprising, in view of the inflation which has taken place over those thirty-five years! We all need far more paper pounds in our pockets to pay the butcher, the grocer, the rent man and the daily ride on the suburban omnibus. So somebody, somewhere, has to monitor the expansion, and see that there's always enough currency to keep up with the demand.

The table on p. 147, (also extracted by the Economic Research Council), shows how the Bank of England Issue Department dealt with a situation obtaining between 1980 and 1981, when it was deemed necessary to get another £550 million of banknotes into public use. The established procedure is for the Government to raise securities to the appropriate amount, and lodge these with the Issue Department, which then has means and authority to print and distribute. There are ordinary commercial expenses involved, and these are meticulously recorded on the statement.

Note the change in the underlying securities. In 1980 they stood at £9,763.98 million, and by February 1981 had been raised to a total of £10,313.95 million, which is exactly the increase required by the expanded note issue. But take a closer look at the table now, and note another figure which has remained unchanged throughout the transaction. That is the £11,015,000 of Government Debt.

What? H.M.G. has managed to get £550 million into circulation without increasing its own indebtedness? How come? Well it would appear that those successive multi-million pound lodgements of securities mean a considerable profit to the Issue Department, which claims the interest thereon. But in view of the fact that the Issue Department is itself an instrument of government since the nationalisation of the Bank of England in 1945, all its profits are remittable back to the Treasury. The table does in fact indicate that the Treasury stood to make a "profit" on its latest transaction of about £411 million, the difference being made up of production and

ISSUE DEPARTMENT

Account for the year ended 28 February 1981

1980 *£000*		1981 £000	1981 £000
	Income and profits:		
811,823	Securities of, or guaranteed by, the British Government	1,135,330	
545,770	Other securities	630,059	
410	Other receipts	14,957	1,780,346
	Expenses:		
19,785	Cost of production of Bank notes	26,355	
8,822	Cost of issue, custody and payment of Bank notes	13,088	
943	Other expenses	1,030	40,473
1,328,453	Payable to the Treasury		1,739,873

Statement of balances: 28 February 1981

1980 *£000*		1981 £000	*1980* *£000*		1981 £000
	Notes issued:		*11,015*	Government debt	11,015
9,762,281	In circulation	10,300,971			
12,719	In Banking Department	24,029		Other securities of, or guaranteed by, the British Government	
			7,388,180		6,689,160
			2,375,805	Other securities	3,624,825
9,775,000		10,325,000	*9,775,000*		10,325,000

Notes:

1 The income and profits and value of securities include the effects of the quarterly revaluation of marketable securities, in accordance with the requirements of the National Loans Act 1968. The last such valuation was made at 26 February, 1981.

2 In October, 1976, the Burmah Oil Company Ltd. served a writ on the Bank claiming, *inter alia*, the restitution of the 77,817,507 British Petroleum Company Ltd. ordinary stock units of £1 (now represented by 311,270,028 ordinary shares of 25p) which had been purchased from Burmah in 1975 for a consideration of some £179 million. Burmah's claim was heard by the High Court in June 1981. Judgement was given in the Bank's favour on 3 July 1981 and on 16 July, the date on which the Court of Directors agreed that the annual report and accounts be printed and issued, it was not known if Burmah intended to appeal.

GORDON RICHARDSON *Governor*
C W MCMAHON *Deputy Governor*
NELSON OF STAFFORD *Director*
R D GALPIN *Chief of Corporate Services*

administration costs and other incidentals. But it was all accomplished without increasing the total of Government Debt.

¶112 THE GOVERNMENT'S DEBT-FREE REVENUE

So! what are we to make of it? That all through the reign of our Good Queen Bess, and for some years prior to her succession, H.M.G. has been *doing a Guernsey* all along! It's been up and printing its own currency, and issuing it according to requirements. That sly old Lady of Threadneedle Street, trapped in the meshes of Clem Attlee's nationalisation bill, decided all those years ago to knuckle down, come quietly and put on her Government livery.

Thus the procedure is there. The mechanics are there. Despite many disavowals and protestations to the contrary, our Treasury since 1945 *has been actively involved in the business of credit creation through its successive expansions of the banknote issue.* Indeed it is calculated that by this prooess alone the Treasury has already provided itself with about £19,000 million of debt-free revenue, — of which £9,300 million arises from the increase in the note issue, and the remainder from the interest saved on government securities. After the Economic Research Council had brought these facts to light in 1981, Treasury officials felt obliged to admit the obvious, and ministers would turn it into a virtue.

Somewhere back there in the early chapters of course, we got the message that all this tangible stuff in the form of banknotes and coin, — the stuff we get in our pay packets and use for sundry living expenses, — is really an insignificant part of the total money stock. Figures interpolated between 1980 and 1981 indicated that a currency base of about £10,400 million was supporting a total money stock of £69,600 million, — whilst the expansion of the note issue over the same period at £550 million sounds like small beer in relation to a PSBR in the region of £9,500 million. The £550 million comes to us interest-free through the peculiar association that now exists between the Treasury and the Issue Department, but that PSBR had to be funded painfully and expensively through the sale of high-coupon Government securities to the money market.

¶113 COMING TO THE PROPOSAL

Now you know by this time why there is any need for a PSBR at all. In the previous fourteen chapters we've been able to snip and snipe our way through all the red tape and cotton wool, the protestations and the obfuscations, — till we came face to face with the unavoidable conclusion that for some years past the entire amount of the Public Sector Borrowing Requirement has been more than offset by the interest payable on the National Debt. Remember the current figures? PSBR for 1981-82 aimed at £9,500 million! Debt interest over the same period about £11,000 million! PSBR for 1982-83 coming down under the Government's stringent policy on public spending! But National Debt servicing rising nearer to £12,000 million because, even at that reduced level of borrowing, the principal sum gets bigger all the time!

We can stop it now if we want to. As we have seen, the principle was established long ago, before the present Queen's accession to the throne. The procedure is there, — and the mechanics are there. £9,300 million raised since 1945 in Government securities, and lodged with the Bank of England Issue Department to provide interest-free finance for the currency we have in circulation! An approximate £12,000 million, — being calculated on the annual amount of National Debt interest payable, — raised in exactly the same fashion and lodged with the appropriate department of the Bank of England, which would then be in funds for the periodic disbursements to debtholders. Under the protocol as already established between the Government and the Bank's issue department, the Treasury would then have "a liability arising from the securities issued, but these will never be redeemed and will just be rolled over when due for renewal . . ."

¶114 FUNDING THE DEBT INTEREST

But whoa! what are we saying? JUST WHAT ARE WE SAYING? £9,300 million of Government securities created over the last thirty-seven years to finance the note issue! Kept in the Issue Department! Rolled over when due for renewal! And nary a penny of Government debt!

O.K. We get that. We appreciate that it's been happening all the time, — and a darned good thing, even though it needed a scalpel and forceps to extract the relevant information from the Treasury.

But this £12,000 million of debt interest redemption stock, — or whatever you choose to call it! That's something completely new, isn't it? Funding the interest on the Debt by means of an internal arrangement between the Treasury and some appointed department of the Bank of England, — just as they do when they want to increase the circulation of paper pounds! No procedural problem! Just the magnitude of the fund that's needed! £12,000 million for the first, and every succeeding year, so that in ten years time you might have about £120,000 million floating internally between various instruments of government . . .

So what? Friend! fellow countryman! if we do not adopt *some* such technical and procedural advice as has been proposed here, — if it is given the loud guffaw, — or worse still, "the silent treatment", — at the end of that ten years the National Debt could conceivably have reached £200,000 million, with a PSBR verging on £25,000 million just to pay the interest, and a British pound worth less than that miserable 20p piece which you currently discharge out of your small change.

¶115 IT HAS TO BE CREATED IN ANY CASE

Now who's got the logic and commonsense on *his* side of the argument? The author of *The Money Bomb,* — or that Treasury official who's going to insist that the *creation* of Government securities for payment of National Debt interest would be vastly inflationary? Remember that the cash for these annual interest payments *has to be created in any case,* and that it is presently done by procedures that are *proven* to be inflationary. *So* inflationary that they added a further £7,500 million to the total debt in the months that it has taken to put this book together!

You've got to get out from under the guff and the verbiage, and realise the implications of these figures for the future of our nation. You've also got to have a very clear conception of the relevant issues that have been raised in this volume. Especially do you have to appreciate the urgency of putting the lid on the Debt, — *and of*

funding its existing commitments in such a fashion that the total burden does not go on increasing.

It can happen if a procedure already in use for the backing of the banknote issue is extended to cover a sum of somewhat greater magnitude. It can happen without any annulment of those caveats and provisos which we made at the beginning. It can happen without disturbing the existing credit creation process, or affecting the relationship between the banking industry and its customers; neither will it penalise the holders of Government stock, or convulse the markets and the exchanges. What it *will* do is to get rid of that "high-powered money" defined by Milton Friedman as the injection of Government borrowings, and designated by him as the prime ingredient of an exploding money supply.

¶116 ENUMERATING THE BENEFITS

And what benefits will be seen to flow if we finally manage to cap and de-fuse the money bomb? An end to the Public Sector Borrowing Requirement for one thing! A complete standstill on fiscal-induced inflation! A more relaxed attitude at the Inland Revenue as existing levels of taxation provide comfortably for all the real expenses of running the country! A Chancellor of the Exchequer who can sleep in his bed at night without having nightmares about the escalating feedbills for that dinosaur he keeps hidden at the Treasury! The emergence of a self-respecting generation which will quickly appreciate that it is paying for its own defence, community services, pleasures and amenities, without either being taxed for the vicissitudes of earlier centuries, or piling up debt for its successors in the future!

Interest rates falling gently to a level at which investors are satisfied that they have a nett *real* return on their money, without plussing up for inbuilt inflation. Battle-scarred industry raising its head again, and productive investment resuming its rightful place as the wealth-earning sector of the national economy. Future debates upon the building of ships, tanks and planes as opposed to schools and hospitals, devolving more around the availability of human and material resources than upon the limitations that have to be imposed on borrowed money, — so that we might never again jeopardise our

security through having to make a choice between defence needs and the health and welfare of society at large.

Do not be misled by the lowering of inflation rates throughout the depressed economies of the Western World during 1982 and 1983. The subsidence is not due to any reversal of upward pressures, but rather to the affixing of clamps and anchor chains to a debt structure which has all the buoyancy of a hydrogen-filled balloon. In such a state of uneasy equilibrium, any slackening of restraint is liable to send the vehicle off into the stratosphere.

¶117 LIVING WITH A TABOO

The proposal outlined in this chapter has been tailored to suit the needs and the procedures of the United Kingdom alone. Over on the other side of the Atlantic, where the only conservative president in postwar history found the monetary statistics being rammed down his throat before he had time to get his feet behind the desk at the Oval Office, the *Truth in Money* corporation of Chagrin Falls, Ohio, has concurrently been working upon a formula for capping the escalating Federal Debt of the United States. By 1983 the servicing of this debt may be expected to cost the U.S. Treasury something in the region of $100,000 million, and it was the inevitable borrowings created to finance such an enormous burden which were responsible for America's cycle of penal interest rates, recession and unemployment between 1980 and 1982.

Being well aware that the subject is much too complex for a complete solution to emerge from any single brain, any individual's range of experience, the author is duly gratified to have his work complemented in the Land of the Dollar. Many other minds, by their painstaking researches and their persistence in the unravelling of obscure facts and jealously guarded material, have already made significant contributions to this identification of the money bomb, — and acknowledgements are given elsewhere. But it may be time for a wider public, including the professionals of the money markets, to take a less inhibited look at the methods by which our own and other Western governments have been accustomed to obtaining their finances.

There is undoubtedly considerable pressure upon such com-

mitted market operators to shut their eyes to logic, commonsense and the needs of the nation in their compliance with the prevailing orthodoxies. Yet they should appreciate that they lose a little bit of their stature, and suffer an encroachment upon their personal freedom, every time they condone by their silence, — or endorse by their authoritative opinion, — a system whose inherent instability might yet push the free societies of the West into some form of enforced federation with the bankrupt and collectivist East.

It is believed in some quarters that influential international power groupings, people with the patronage and the financial muscle to achieve their ambitions, have already decided that there's more security for them in a world federalist authoritarian state than in a free-thinking and outspoken democratic environment where they might at any moment be denounced and exposed. In other words, they are alleged to have gone over to the ideological enemy without a shot being fired, — and that, if it's true, should warn us against too much reliance upon certain traditional alignments.

It might also explain why subjects such as the money system, which are of acute and vital concern to society at large, have thus far been surreptitiously sidetracked by the organs of mass opinion. Makes for a subtle curb on candid thought and intellectual freedom, doesn't it? Like introducing a *taboo* into our twentieth century milieu, where almost everything else is open to rigorous investigation, exposure and occasional ridicule!

Could it account for that descent into the trivial and the nondescript which marks so much of our news reporting? After all, if you lock up a handful of people with a recumbent man-eating tiger, — having convinced them that he'll spring to life at mention of his man-eating proclivities, — the ensuing conversation might tend to dwell more on trivialities than upon the imminent need for killing the tiger and ensuring survival.

Which reminds us, — there's still a dinosaur eating his head off at the British Treasury, and no one in officialdom dares mention the fact, in case he's speaking out of turn.

THE END

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THE MIND BENDERS (1978)

Subtitled the Gradual Revolution and Scottish Independence, highlights the dangers to nationalist movements the world over as they get caught up in the spider's web of International Marxism.

THE LEMMING FOLK (1980)

A study of those elements within Western society whose many-sided aberrations tend to destroy the pride and confidence of great nations, thereby making collectivist conquest a real and frightening possibility.

THE BEAST IN THE TEMPLE (1982)

An exposure of the aims and methods of religious humanisim, as it bids to become the doctrine and philosophy of the twenty-first century.

BACK COVER OF FIRST EDITION

How to defuse the money bomb
which is ticking away at the heart of the
Western World's financial system?
In the latter stages of this volume the author has made
his own proposal, but quite clearly anticipates that new
ideas, suggestions and amendments will emerge as experienced
economists and finance experts take up the problem which he
has now so devastatingly exposed.

**The publishers, William Maclellan (Embryo) Ltd.,
have therefore decided to offer a prize of**

ONE THOUSAND POUNDS

**for the best supporting or alternative
proposal which addresses itself to the crucially
important subject matter in hand, and offers a
practical and acceptable solution.
Essays can be of any length within a broad limit
of 4,000 words, and the successful entry will be
published as an appendix to the next reprint
of THE MONEY BOMB.**

The competition will remain open for a period of twelve
months from the end of the month of publication
as shown on the flyleaf. The publishers'
desicion of the merit or suitability
of entry or entries must be
taken as binding.

APPENDIX

CONVERTIBLE CURRENCY

(The Essential Accompaniment of Government Credit Creation)

The requirements are twofold:– firstly to provide a stabilising effect upon the national currency; secondly to reinstitute that measure of Government credit creation which is necessary to prevent national revenues from being progressively devoured by the *dinosaur* of interest-bearing debt.

The classical means ot preserving the value of money, which has been uniquely successful over the past two centuries, was to guarantee the convertibility of the currency on demand into specified commodities, traditionally silver and gold. But as *The Money Bomb* has pointed out, a return to a rigid gold standard would not produce economic or monetary stability today; whilst in the past any effort to equate credit and economic activity with a limited reserve of gold bullion periodically caused bouts of social distress and hardship. *(The Money Bomb* page 35).

Such might be the consequences with any other single commodity. Nevertheless the unique efficacy of currency convertibility has been endorsed by all the great classical economists, — by Adam Smith, David Ricardo, John Stuart Mill, Stanley Jevons, — and in the twentieth century by eminent figures as varied as Irving Fisher, Lord Keynes and Professor Hayek. It remains the only policy to have succeeded in maintaining the real value of money over the long term, and to have done so with minimal government intervention.

THE BASKET OF COMMODITIES

In order to avoid the spasmodic traumas of the gold standard, economists such as Keynes and Hayek have supported the adoption of currency convertibility based for preference upon a range of basic commodities. Unfortunately, due to the fact that primary commodities are produced and used in very large quantities, and their prices vary substantially over the trade cycle, a system of *fixed* convertibility is out of the question. Even so a number of proposals have been put forward during the last fifty years to make currency convertible into a "fixed basket" of commodities.

Thus a dollar might be defined as:–

.2 Kg wheat
.2 Kg sugar
.1 Kg copper
.1 Kg aluminium
.1 Kg rubber

so that the price of one commodity could vary without dramatic fluctuations in the index.

However, although this idea would allow some relative movement of commodity prices, it would impose severe distortions on markets by linking various commodities together; also, to guarantee the value of currency in this way would involve an open-ended financial commitment on a very large scale (due to the swings that can occur in primary commodity prices).

LEO ST. CLARE GRONDONA

It was with a view to overcoming these difficulties, and to evolve something which might be practical for implementation by individual countries, that the Australian economist Leo St. Clare Grondona formulated a system of *conditional* currency convertibility during the 1940's. Instead of attempting to *fix* the price of a *basket* of commoditios, Grondona proposed to take a range of primary products and give each one a relatively wide price variation which would adjust to market conditions.

Under the gold standard the Bank of England stood ready to sell or purchase gold on demand, in specified units and at a

specified price. The organisation proposed by Grondona, which in the case of the United Kingdom might be termed the *Commodities Reserve Department,* would stand ready to buy or sell specified commodities, of specific qualities, in specified units and at specified prices, but with two major refinements.

The first of these is that the Department's buying or selling prices for each commodity would not be fixed, but would adjust automatically to the level of reserves at any given time, — falling as these accumulated, and rising as they were withdrawn, — all according to a pre-arranged schedule of reserve prices.

Secondly the Department's guarantee to sell on demand would not be absolute, but would apply only when it was holding reserves, of which the levels would be publicly known. For the U.K. the system might initially involve copper, tin, lead, zinc, aluminium, nickel, pig iron, rubber, wool, cotton, sugar, coffee, cocoa, wheat, maize and soya beans, — all of which are imported in large quantities in standard grades, and are economically storable for several years without deterioration.

ESTABLISHING A COMMODITIES RESERVE

Table I illustrates the reserve price schedule that a British Commodities Reserve Department (CRD) might establish in the case of copper. Initially it would stand ready to purchase standard quality copper in 500 ton units at £900 per ton. When market prices fell to around this level, traders would find it profitable to sell supplies to the CRD. As soon as the latter came to hold reserves of copper, it would offer to sell on demand at £1100 per ton, at which time the value of sterling in terms of copper would lie between .9 and 1.1 Kg. When the CRD's reserves reached 40,000 tons, it would lower its purchase price by a nominal 5% to say £855 per ton. If the market stabilised around this figure, and supplies continued on offer, the CRD would go on buying up to its next limit of 40,000 tons, whilst lowering its selling price to £1,045. Further supplies, if still overhanging the market, are taken in at the next level of £810 and the process repeats until the surplus is absorbed, or the CRD's buying price is too low to attract further business.

TABLE I

Illustrative Price Schedule for Copper with initial index Price of £1,000 per ton

Quantity of copper in CRD's reserves (1000s of tons)	Current buying price (£ per ton)	Quantity of copper in CRD's reserves (1000s of tons)	Current selling price (£ per ton)
0— 39.5*	900	*0.5— 40	1100
40— 79.5	855**	40.5— 80	1045**
80—119.5	810	80.5—120	990
120—159.5	765	120.5—160	935
160—199.5	720	160.5—200	880
200—239.5	675	200.5—240	825

* : the minimum quantity of copper with which the CRD deals is 500 tons

**: the price steps between CRD's successive price bands are 5% of initial levels

As and when demand increased, and market prices started to rise again, traders would purchase reserves from the CRD whenever its current selling price was attractive. The availability of its known reserves at known prices would modify upward price movements, whilst its readiness to purchase at known prices would limit the downward pressures. The overall effect would therefore be to stabilise both primary commodities and the value of sterling.

SUGGESTED OPERATING PROCEDURES

In order to establish a CRD the Government would require to index each commodity on the basis of import prices and volumes over the preceding few years. Initial buying and selling prices might then be set at 10% above and below the index, and the maximum quantity within which the CRD would hold its dealing prices, (what Grondona called a "block" of reserves), might be determined at between 10% and 20% of average annual imports.

Table II illustrates the application of these figures to the sixteen commodities already listed, based on average U.K. import values over the years 1980–83. A number of adjustments would have to be made in the process of establishing a CRD. For instance sub-divisions would have to be made in such as wheat, where more than one standard grade might be involved. There again a

TABLE II

Illustrative figures for establishment of British Commodities Reserve Department based on average import volumes and prices for 1980–83.

	Annual Imports (KT)	Price (£/ton)	Quantity per Block (KT)	Index Price (£/T)	Initial Buying Price (£/T)	Initial Selling Price (£/T)	Cost of 1st Block (£m)	Cost of four Blocks (£m)
Copper	310	1081	30	1080	972	1188	29.2	108
Tin	8	7451	1	7450	6705	8195	6.7	25
Lead	167	816	17	400*	360	440	6.1	23
Zinc	126	495	13	500	450	550	5.9	22
Aluminium	153	884	15	880	792	968	11.9	44
Nickel	15	3650	1·5	3650	3285	4015	4.9	18
Pig Iron	124	111	12	110	99	121	1.2	4
Rubber	129	689	13	690	621	759	8.1	30
Cotton	55	1027	6	1030	927	1133	5.6	21
Wool	79	1534	8	1530	1377	1683	11.0	41
Sugar	1078	274	110	270	243	297	26.7	99
Coffee	91	1720	9	1720	1548	1892	13.9	51
Cocoa	89	1284	9	1280	1152	1408	10.4	38
Wheat	1732	131	170	130	117	143	19.9	74
Maize	2242	110	220	110	99	121	21.8	81
Soya beans	975	162	100	160	144	176	14.4	53
Totals							197.7	732

* Average figures adjusted to allow for major change in prices

commodity such as lead has seen a major price shift in recent years, and for sugar the import prices are artificially supported. Generally however average import figures provide the most appropriate basis.

Grondona made a number of further provisions. He insisted that the CRD must remain entirely passive, must refuse to enter markets, and function only as a buyer and seller of commodities on strictly defined terms which would not be negotiable. It would deal only in large units, and all costs of appraisal and delivery would be borne by the customer. Its transactions would be under Customs bond, thereby encouraging free trade in primary commodities, and avoiding the payment of tariffs and duties. It would also accept reserves "on deposit", and guarantee to buy these in at the relevant dealing price. Such deposits could be used as security for bank loans, an additional facility that would reduce the outlays required of the CRD.

A STABILISING INFLUENCE

Though extremely simple, the system of automatic price adjustments suggested by Grondona has far-reaching consequences. By operating according to fixed rules, the CRD would not distort the functioning of commodity exchanges. Market forces would continue to raise or lower prices, but CRD transactions would tend to iron out violent fluctuations. Individual countries could implement the system independently in terms of their own currencies, and according to their own national needs, and by so doing could achieve a stabilising influence upon their exchange rates.

For instance, if the sterling rate fell at a time when the British CRD was holding significant reserves of commodities, market prices would rise in sterling terms, and traders would find it profitable to buy from our CRD. They would pay in pounds, thereby increasing demand for the currency and countering the fall in the exchange rate. The reduction in money supply consequent on CRD sales would also be a stabilising factor, other things being equal.

MONETIZING THE REAL WEALTH

As *The Money Bomb* has been at pains to emphasise, the current financial system, with its centralised credit control, tends to penalise the primary producer at his lowest point of resistance, thereby exacerbating distress in developing Third World countries, whilst depressing both credit and activity in the domestic economy as well. There is no doubt that had some form of Commodities Bank existed in the 1930's — as was advocated by Lord Melchett in "Modern Money", — many of the bankruptcies and closures, much of the mass unemployment, need never have happened. *By assessing it's wealth in terms of the things that human beings eat and wear and use, rather than bullion in vaults, or levels of bank advances, the government of that day might have enriched the lives of an entire generation.*

This is perhaps the hardest thing to impress upon a people reared on the principles of orthodox finance, — that real wealth is indeed the sum of men's labours and the produce of the Earth, and that money is merely a means of exchange. In the financing of a Commodities Reserve, the money would be called into being as and when the produce materialised. It is as logical and legitimate to create a thousand pounds against a ton of copper as it was for the Bank of England to issue currency against reserves of bullion in the days of the gold standard. It should also be more acceptable in human terms, since it involves equating the nation's credit to the raw materials of civilised life.

Thus a government intent on creating a CRD, and having the welfare of its own people at heart, would never resort to bank borrowing, but would purchase the commodity stocks with appropriate issues of its own money, on the sound and well-tried principle that no credit issue is inflationary when an equivalent amount of real wealth stands ready to be monetized. The funds thus generated would find their way through the Treasury into the hands of importers and primary producers, who would thus have a prop to sustain them in the throes of any cylical downturn. Also, once the merits of the system had become known to our trading partners, and some of these set up their own commodities banks

upon the same principle as suggested above, the Third World Debt Crisis, which in recent years has threatened to overwhelm our entire financial system, would tend to ameliorate and disappear. We should then find that the majority of the primary producing countries would covet our *trade* and dispense with our *aid*, and a whole range of professional relief agencies would go out of business.

A NON-INFLATIONARY STIMULUS

It will be seen from further reference to Table II that the purchase of one "block" of sixteen selected commodities under the Grondona formula would cost approximately £200 million. This is the minimum scale upon which a CRD might establish itself, and at that level its operations would be modest enough to have beneficial but not appreciable effects upon the national economy. When it became desirable to exert a greater influence, the range of commodities might be increased, and the Reserve Blocks set at 20% of annual imports. During a severe recession a British CRD might be requested, at a maximum, to absorb between six months' and one years' reserves of twenty durable and essential basic commodities.

Against this the Treasury might find itself issuing some £2,000 million over a period of two years, withdrawing it from circulation at a premium as commodity prices rose again. Such Treasury issues would provide that stimulus so often demanded by moderate and left–wing politicians at times of industrial stagnation, — but since they would not be financed by bank borrowing, they would actually be counter-inflationary by reducing demands upon the PSBR.

CONSOLIDATING THE HARD–WON GAINS

The Grondona system does not in itself constitute a **fixed** currency standard, since it would not **unconditionally** guarantee the real value of currency. Neither would it in itself **compel** the authorities to pursue a non-inflationary monetary policy, and thereby guarantee the safety of government credit creation. But by its very flexibility it requires very little change in other government policies, **thereby facilitating its adoption.** Monitoring a broadly

based CRD, and ensuring that its reserves remained above a prudent minimum, would impose a discipline upon any administration, and might in fact revive that honoured dictum of honest government, that whatever it might do to retain electoral support, it should not be allowed to pursue policies that erode the value of the currency unit.

Between 1979—1984 the British governments presided over by Mrs. Margaret Thatcher made great progress in eliminating inflation. But there is real danger that such hard-won and costly gains could be frittered away by her successors unless they are consolidated by appropriate constitutional changes. A partial return to currency convertibility would constitute such an initiative. By showing the way to stable, non-inflationary economic growth, it would demonstrate that the preservation of sound money does not require perpetually restrictive monetary conditions. Cyclical Treasury credit creation and liquidation, within pre-determined limits and with 100% commodity backing, would occur automatically in response to market forces, in such a way as to stabilise the value of money and reduce the extent of trade and business fluctuations. In addition the legitimate use of discretionary government credit creation would become more acceptable, and be monitored against abuse.

It was with Grondona's proposals in mind that the editor of *"The Manager"* wrote, as long ago as 1958:

"It can only be a question of time before man's reason and self-interest overcome his inertia and these proposals are accepted. When they are, they will define the beginning of an era as surely as did the introduction of the gold standard . . . but without its fatal weaknesses."

The prime minister who is ultimately responsible for taking such an initiative, and thereby giving a very necessary lead to the rest of the world in returning to currency convertibility, will be creating a monument by which he or she will be long remembered.

P. Q. Collins
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THE MONEY BOMB

The dramatic exposé which proves that:

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* **Recessions and depressions are an inevitable consequence of the debt structure, making nonsense of the accepted economic wisdom.**

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No honest politician can ignore these blinding truths, now that they are becoming generally known. As for the dishonest and the vested interests, their only recourse is to try and suppress them, — which is something they are already doing. In the first 12 months of publication, **The Money Bomb** was boycotted by almost every bookshop in the U.K.

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"It is as . . . legitimate to create a thousand pounds against a ton of copper as it was for the Bank of England to issue currency against reserves of bullion . . ."

*"It can only be a question of time before . . . these proposals are accepted. When they are, they will define the beginning of an era as surely as did the introduction of the gold standard . . . but without its fatal weaknesses." (Editorial in **The Manager,** 1958)*

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